

HUD Office of Inspector General

**Semiannual Report to the  
Congress**

as of September 30, 1999

## INSPECTOR GENERAL'S MESSAGE

The goals the Office of Inspector General (OIG) has for HUD derive from our statutory mission, which is to promote economy and efficiency, and prevent and detect fraud, waste, and abuse. This translates to a HUD that: i) administers its core programs efficiently, effectively, and in accordance with the law; and ii) safeguards against loss of taxpayer monies through waste, mismanagement, or wrongdoing. In support of these goals, the OIG has advocated consolidation of some HUD programs, termination of others, and correction of fundamental institutional weaknesses in such areas as information systems, resource allocation, procurement, program monitoring, and organizational accountability.

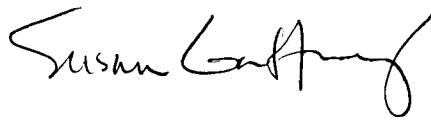
We recognize that, outside the OIG, there may be different and/or expanded agendas for HUD. We also recognize that OIG concerns are sometimes seen as bureaucratic, even boring, and that addressing these types of concerns within the Federal Government can take unconscionable amounts of time and effort. We have, for instance, government-wide, seen significant financial management improvements as a result of the Chief Financial Officers Act, but it has taken 10 years of unrelenting effort by the Congress, the General Accounting Office, the Office of Management and Budget, agency Chief Financial Officers, and agency Inspectors General. And we still haven't obtained the full promise of the Act.

It's also important to keep in mind that OIG work is governed by professional standards designed to ensure independence and objectivity in the reporting of audit and investigative results. It is surprising, then, as well as unjustified, that the current HUD Administration has chosen to place more weight on the reports of consultants who are hired and paid by the Department and dependent on the Department for future business.

Against that background, we offer the following OIG perspectives on the State of HUD.

- Since January 1997, HUD has reduced the size of its staff by 12 percent, to about 9,200, a target level that lacked any analytic basis.
- Since June 1997, HUD has been engaged in a major restructuring, known as HUD 2020, which also lacked an analytic basis. The new organizations called for by HUD 2020 have been established and staffed, but in most cases they are not fully operational and it remains unclear when they will be fully operational or what their effect will be on HUD operations. In two cases, however—Community Builders and Management and Marketing contracting—we have already seen negative effects.
- Since January 1997, HUD has resisted efforts to streamline/consolidate HUD programs, and has instead taken every opportunity to propose new, narrow initiatives. The Gun Buyback initiative stands as a testament to HUD's eagerness to ride currents of public opinion that lead the Department away from its core mission.
- Since January 1997, despite HUD's vow to get off the General Accounting Office's High Risk List, we continue to report essentially the same material weaknesses every year in the OIG's audits of HUD financial statements. As an example of the slow progress toward institutional reform, we have found that organizational changes in the procurement process haven't translated to significantly improved procurements.
- Meanwhile, the Department faces major challenges in implementing the Quality Housing and Work Responsibility Act, mark-to-market legislation, the Native American Housing Assistance and Self-Determination Act, and loss mitigation reforms.

While these perspectives may appear bureaucratic, even boring, they have a direct effect on the quality of HUD service to the people who need HUD's help. We are a long way from HUD's meeting the key objectives the Secretary announced in June 1997: "outstanding performance, efficiency, and accountability to the American people."

A handwritten signature in black ink, reading "Susan Gaffney". The signature is fluid and cursive, with the first name "Susan" and last name "Gaffney" clearly distinguishable.

Susan Gaffney  
Inspector General

# Chapter 1

## **HUD Management Issues**



# HUD 2020 Management Reform Plan

HUD's 2020 Management Reform Plan is one of the most ambitious, long-standing and publicized reorganization efforts in the history of the Department. Since the 2020 Plan was announced by Secretary Cuomo in June 1997, we have focused this first Chapter of our Semiannual Report to the Congress on the progress of the reform effort. During the 6-month reporting period ending September 30, 1999, we issued internal audit reports on the following six major aspects of the 2020 Reform Plan: Community Builders, Troubled Agency Recovery Centers (TARCS), the Real Estate Assessment Center (REAC), Single Family Property Disposition, Single Family Loss Mitigation, and Departmental Procurement.

Initially, the 2020 Plan called for nearly all reform changes to be completed by the end of Fiscal Year 1998. The Plan included: i) consolidating several program functions, once performed in numerous field offices, into Centers; ii) developing a systematic assessment of HUD housing through the REAC; and iii) increasing emphasis on enforcement actions with the establishment of an Enforcement Center. Also under the Plan, fewer staff would be needed as many business operations would be shifted from retail to wholesale. Greater reliance would be placed on contractors to handle retail operations, with HUD's staff responsibility shifted to contract monitoring. Additionally, under 2020, HUD established new employee positions called Community Builders (CBs) and Public Trust Officers. It was envisioned that CBs would handle outreach efforts by promoting HUD programs and helping participants solve community problems. PTOs would handle the day-to-day business operations.

Our audits found that 2020 organizational changes are complete, but the real substance of the reform changes, i.e., business operational changes, is still under development. While reform efforts have been underway for 27 months, there is still uncertainty as to whether or not the major business operational changes, when implemented, will prove successful in improving the efficiency and effectiveness of HUD programs. Also, staffing efficiencies from contracting out major pieces of HUD's work have not been realized.

The continual state of change brought about by 2020 has had a crippling effect on many of HUD's ongoing operations. In many respects, the Department has been operating on two tracks, one putting 2020 organizational systems in place and the other carrying out ongoing work.

The following is a summary of significant audit work completed this period related to the 2020 Reform changes.

## **Community Builders**

On September 30, 1999, we issued a nationwide audit of Community Builders. The audit evaluated the assigned responsibilities of CBs, including their roles with communities and their impact on other HUD organizational elements. The audit recommended the elimination of the CB position.

The Secretary established the CB position in HUD as part of the 2020 Reform Plan to improve community outreach by redirecting about 10 percent of HUD's staff resources to CB positions. The CBs include about an equal mix of career and term employees, known as fellows. The Secretary said that CBs would spearhead

## **Troubled Agency Recovery Centers**

an effort to “empower America’s people and local governments to take the leading role in improving lives and strengthening communities.”

We began our review by looking at how the Department made CB staffing level determinations and examining CB hiring practices. HUD could not document its need for 778 CB positions. Additionally, we found selection irregularities in the hiring of many CB positions, including the use of inappropriate federal hiring authority and the misapplication of veterans preference in the ranking of applicants. We raised other concerns over the high grade structure assigned to CB positions. CB hiring, at the GS-13 to GS-15 grade levels, has significantly increased HUD’s average employee salary and caused morale problems within other segments of HUD because of obvious grade imbalances.

We reviewed CB accomplishments in headquarters and 11 field locations. The CBS’ impact on HUD’s mission is for the most part indeterminable. The Secretary established a visionary mission whereby CB staff would solve “the toughest economic and social problems facing communities.” HUD cannot realistically measure such accomplishments. The Business and Operating Plan, HUD’s measure of performance, did not track CB outcomes but rather activities, such as how many meetings were convened or how many presentations were provided. Furthermore, most of the field offices have inadequate systems in place to document and validate CB reported activities. Our discussions with other HUD staff and outside customers found the impact of CBS to be minimal. In some instances, we found the CBS’ limited knowledge of HUD programs and/or their poorly defined responsibilities have caused CB staff to give inappropriate guidance to communities or improperly interfere with HUD matters outside of their authority.

Through the establishment of the CB Program, HUD has redirected a significant amount of staff resources to outreach and customer relations activities. In our interviews with 59 CB staff during the course of our audit, 39 said they spent more than 50 percent of their time on public relations activities. Since the CB function was created without any increase in HUD funding, all associated CB costs reduce the funds available for other program staff. These other program staff, known as Public Trust Officers, have the responsibility for monitoring and overseeing several hundred HUD programs. At a time when HUD is designated by the General Accounting Office as a “high risk” agency, HUD can ill afford to devote substantial resources to the CB concept. CB activities do little to address HUD’s mission and require scarce resources being directed away from areas that could help in addressing the many identified material weaknesses in HUD programs.

On September 30, 1999, we issued an audit related memorandum based on a survey of the TARCs and related field office activities. Under the 2020 Plan, HUD established two TARCs, one in Cleveland and one in Memphis, to oversee and service troubled public housing agencies (PHAs). The TARCs were established to work with designated troubled PHAs to assist them in bringing their performance to an acceptable level. Troubled PHAs whose performance did not improve to an acceptable level were to be referred to the Enforcement Center for potential receivership or HUD takeover action.

The Department reported the TARCs as fully operational on October 1, 1998. Our review, nearly a year later, found the TARCs working at less than 10 percent

of their planned capacity. There are several reasons for the TARCs' minimal workload. First, staff level determinations for the TARCs were based on an estimated 575 troubled PHAS that would be identified through the REAC's new Public Housing Assessment System (PHAS). However, the details of the PHAS final rule and the implementation of a formalized PHAS inspection process have been delayed pending further review by the General Accounting Office and PHAS. Troubled PHAS are still being identified through the former self-assessment methods known as the Public Housing Management Assessment Program (PHMAP). Thus, while the TARC is in place organizationally, the changes in business operations proposed by 2020 are far from complete.

Secondly, when the final PHAS rule is implemented, recent changes in Office of Public and Indian Housing operating methods will likely reduce the TARCs' ultimate workload of troubled PHAS. The proposed PHAS scoring is made up of four indicators: (1) physical, (2) financial, (3) management, and (4) resident satisfaction. Originally, the PHAS rule referred troubled PHAS to the TARCs if they had an overall failing score, or a failing score in any one of the first three PHAS indicators. However, the Office of Public and Indian Housing has changed this original guidance. The "troubled" definition was modified to further define troubled PHAS as "sub-standard physical," "sub-standard financial," or "sub-standard management" performers. These designations are to be assigned to PHAS that have an overall passing score yet fail one of the three indicators. Under previous instructions, PHAS with one failing indicator were automatically referred to the TARCs. Now, the TARCs will have the administrative discretion of sending these troubled PHAS, with one failing indicator, back to the appropriate Hub/Program Center (formerly known as field office) for servicing. We believe the change in the proposed PHAS regulations and the PHAS field guidance reverts to pre-2020 business methods. This is not indicative of the Secretary's strong enforcement message that was a cornerstone of the 2020 Reform Plan. Under 2020, the TARC model was to clearly define and separate the roles of intervention/recovery and program operation/management. Consequently, original staffing determinations between the TARCs, Hubs, and Program Centers may be invalid.

Our review also identified problems with the TARCs' management of their existing workload of 52 troubled PHAS. Troubled PHAS referred to the TARCs were delayed in getting statutorily required independent assessments because of problems in the Departmental approval process. TARCs were preparing Memoranda of Agreement (MOA)/Recovery Plans prior to the completion of independent assessments, contrary to the intent of statutory requirements. Also, operating protocols between the TARCs and the field offices needed to better define responsibilities to ensure that PHAS moving off the troubled list continued with their recovery plans. We identified cases where PHAS had unresolved operating problems, but it was unclear who was responsible for monitoring corrective action.

## **Real Estate Assessment Center**

Our audit report issued on September 30, 1999, evaluated the implementation of the REAC's operations pertaining to physical inspection assessments. REAC centralizes and standardizes the physical inspection of multifamily properties owned by public housing agencies and properties insured by the Federal Housing Administration. There are about 45,000 projects to be inspected at a cost of about \$23 million per year. REAC hires contractors to perform the physical

inspections, while the monitoring of the properties remains the responsibility of the Office of Public and Indian Housing and the Office of Housing. The physical inspection assessment subsystem has the potential to be a useful tool for informed decisionmaking on a national basis since it employs a standardized assessment for all properties in the assisted and insured portfolios.

Adequate coordination between REAC and the program offices is essential to realizing the expected benefits of the inspection assessments. While results of inspections have shown that a majority of properties are in fairly good condition, HUD needs assurance that concerns identified in its inspections are corrected. Our audit noted:

- The relationship between REAC and the Office of Housing is still not formalized. While a draft protocol exists, to assure that all responsible parties are clear of their roles, protocols delineating the general operating relationships need to be finalized.
- HUD does not have a method of tracking findings developed from inspections. While the majority of properties inspected were in fairly good condition, 21.1 percent received scores below the standard. Also, health and safety concerns were identified at 54.7 percent of the properties inspected. REAC performs only assessments; REAC does not resolve project issues resulting from assessments. The Office of Housing advised that they are not verifying corrections at the project level because the Secretary assured the industry that only one inspection would be conducted each year. Discussions with officials from the Office of Public and Indian Housing indicate that they are developing a system to track corrective action for issues identified via the physical inspections.
- HUD focused on the benefits to be derived from REAC physical inspection systems without considering the cost of developing, operating, and maintaining the systems. HUD has budgeted over \$62.9 million to develop the assessments and maintain REAC. Additionally, contractual payments for inspections over the next 5 years could total \$117.4 million. HUD needs to determine whether these costs are justified based on the benefits to be derived.

Finally, because program offices have undergone substantial downsizing as a result of HUD 2020, we have serious concern that field offices may be ill equipped to handle the myriad of issues identified through the assessment systems. We plan on reporting further on this matter in our next Semiannual Report to the Congress.

## **Single Family Property Disposition**

On September 20, 1999, we issued our nationwide internal audit of the Property Disposition Program. A major part of HUD's 2020 Reform Plan for the Single Family Program included outsourcing property disposition activities and selling off the inventory of several thousand assigned mortgage notes. Under the plan, the remaining single family workload (mortgage processing and underwriting, asset management, marketing and outreach, and quality assurance) would be consolidated into four Homeownership Centers. These Centers were scheduled to be fully operational by October 1998.



We began our review in August 1998 when it was clear that HUD was far behind in its 2020 implementation goals to contract for property disposition activities and sell the assigned notes portfolio. While organizationally the four Homeownership Centers (HOCs) were in place, there was an increased risk of fraud and abuse as a reduced HUD staff at the HOCs struggled to keep pace with a growing single family workload. We began an audit of the Property Disposition Program to determine FHA's ability to monitor and oversee day-to-day property disposition activities. Our report presents the results of our assessment through March 1999.

In March 1998, the General Accounting Office issued a report that identified serious problems with HUD's oversight of property management contractors. Our report, more than a year later, found no significant improvement. HUD's reorganization efforts adversely affected staffing and impacted its ability to adequately monitor the condition of program properties and enforce contractor compliance. Our review confirmed what FHA performance reports were showing: property inventories increasing, property conditions worsening, sales to homeowners declining, and average sales return compared to appraised value decreasing. We found that FHA continued to have poor control over its contracts with Real Estate Asset Managers (REAMs). Staff shortages caused FHA management to issue emergency contracts and place temporary, inexperienced, and/or untrained HUD staff in property disposition jobs. FHA received numerous reports of non-performance by REAMs, but the heavy workload left no time for enforcement action. FHA lacked systems to record, track, or quickly respond to reports. Instead, FHA continued to pay REAMs fees despite their non-performance.

To maximize the return to the insurance fund, FHA's goal is to sell foreclosed properties as quickly as possible at or near their appraised value. In March 1997, Anderson Consulting prepared an Industry Benchmarking and Best Practices report to allow HUD to draw conclusions regarding their Real Estate Owned (REO) performance. At the time, Andersen Consulting found that FHA's property disposition operation was working favorably, within industry norms. FHA developed goals for various critical success factors to include attaining a 150-day average property holding period and an average return of 98 percent of appraised value. During our audit period, FHA fell short of these goals. FHA's average holding time for properties sold in FYs 1997 and 1998 was 182 days and the average return on appraised value was 94.9 percent. Had FHA achieved its goals during FYs 1997 and 1998, an additional \$269 million would have been returned to the insurance fund. We believe the HUD staffing shortages and emergency contracting brought about by 2020 changes directly impacted HUD's ability to achieve these goals.

On March 29, 1999, after completion of our audit work, most of the FHA property disposition functions were contracted out to Management and Marketing (M&M) contractors. Nationwide, the M&M work was divided into 16 contract areas. These M&M contracts became effective with a 5-year value of about \$927 million. While it was too early to evaluate these contracts, we did recommend improvements to contract monitoring policies. We found that contracts did not contain: (i) sufficient information regarding FHA's reimbursement to contractors for property repair costs; or (ii) monetary penalties for contractor noncompliance. In addition, the new contract monitoring manual did not provide comprehensive guidance for reviewing and approving reimbursement of repair costs, conducting contract risk assessments, and documenting monitoring results.

## Single Family Loss Mitigation

Clarity and consistency in applying policy are needed to prevent contractor noncompliance and abuse.

Our follow-up Procurement audit, which is discussed later in this Chapter, provides some additional insight into the M&M contracts. Our audit expressed concern that HUD had taken a great risk by putting the multi-billion dollar REO workload into the hands of a few contractors. HUD's largest contractor received 45 percent of the REO workload. We also found that HUD did a poor job of evaluating the capacity of these contractors to properly manage such a large operation. These concerns were realized subsequent to completing our audit. On September 22, 1999, the Department was forced to terminate its largest M&M contractor for non-performance. This action is a major and costly setback in the Department's desire to contract out the REO function.

On September 30, 1999, we issued a nationwide review of HUD's Loss Mitigation Program. The Loss Mitigation Program replaces HUD's Assignment Program which was terminated in November 1996. Under the Loss Mitigation Program, servicing mortgagees are compensated for using one of five loss mitigation tools (special forbearance, mortgage modification, partial claim, pre-foreclosure sale, and deed-in-lieu of foreclosure). The program is expected to reduce the number of foreclosures and to reduce the costs associated with foreclosures. As part of HUD 2020 Management Reform, the National Servicing and Loss Mitigation Center in Oklahoma City became fully operational in February 1998. The Center consolidated the loss mitigation function into a single centralized office and created a single point of contact for mortgagors and mortgagees nationwide.

Our audit found a lack of program oversight and weaknesses in the monitoring of servicing mortgagees. Although the use of loss mitigation tools is increasing and thereby forestalling many FHA foreclosures, HUD continues to see increases in default and foreclosure rates. Since there is a time lag between loss mitigation activities and foreclosure actions, and since the majority of loss mitigation activities have occurred in the last year, it is too early to determine whether the program will ultimately be successful in reducing foreclosures and keeping families in their homes. In the meantime, our review found several weaknesses with the program:

- HUD needs improved procedures for reviewing loss mitigation claims. We found inappropriate payments for loss mitigation to include: payments for actions not reported to HUD, payments for mortgage modifications made too early in the default process, and inaccurate incentive fee payments. HUD should also be monitoring how mortgagees use various loss mitigation tools. For example, HUD estimated that its most costly tool, mortgage modifications, would be used about 17 percent of the time. We found that one high volume mortgagee used the mortgage modification tool more than 90 percent of the time. These problems occurred because of a lack of pre- and/or post-claim review procedures.
- HUD has limited assurance that all mortgagees have established procedures to implement loss mitigation tools. Approximately 3,000 mortgagees that service about 1 million FHA mortgages have not filed any loss mitigation

claims using home retention tools. If mortgagees fail to use the home retention tools, mortgagors may not be furnished sufficient guidance and avenues to retain their homes which could adversely effect the mortgage insurance fund.

- The National Loss Mitigation Center was to provide on-site training and monitoring of high volume servicing lenders. While the Center has conducted some training, it has been limited, and no monitoring visits of mortgagees have been conducted. Further, HUD does not perform any pre- or post-loss mitigation reviews. The Center has primarily functioned as a customer service center providing counseling to individual mortgagors. Due to the Center's limited staff (29 employees) and travel funds, it would be more beneficial to focus efforts on training and monitoring servicing mortgagees so that every FHA mortgagor in default could benefit from loss mitigation tools if properly implemented by servicing mortgagees.

## **HUD Procurement**

On September 30, 1999, we issued our Follow-up Report on HUD Contracting. We issued an earlier contract report on September 30, 1997. The purpose of our current audit was to assess the effects of recent HUD reform initiatives on the procurement process. These initiatives were intended to increase the safeguards against fraud, waste, and abuse in procurement activities.

Since our previous audit, the Department has hired a Chief Procurement Officer (CPO), established a Contracts Management Review Board (CMRB) and assigned trained, full time Government Technical Representatives (GTRs) to oversee contracts. Further, the recently deployed the HUD Procurement System (HPS) has gone a long way to link procurement with core accounting systems. The HPS provides for tracking contract status from planning through post award contract administration.

While the CPO's commitment to making the Department a model procurement agency is encouraging, we are not convinced that the Department's overall contracting attitudes and practices have changed significantly from 2 years ago. Indeed, we found that many of the planned improvements appeared more substantial on paper than in reality.

The CMRB was established to improve the planning, implementation, and monitoring of procurement actions. While the CMRB has successfully obtained program office cooperation in submitting strategic plans that identify and value anticipated procurement actions, its lack of involvement has limited its success in other aspects of contract administration. To date, the CMRB's only significant involvement in procurement actions has come during the planning stage. During this stage, procurement plans are described conceptually, but they lack the detail available when task orders are being processed for award. The CMRB did not review individual contract actions taken by the field and only reviewed individual contract actions processed by headquarters if they exceeded \$5 million. Only 1 of the 148 procurement actions undertaken during Fiscal Year 1999 was subject to CMRB review. Without CMRB involvement in all facets of the procurement process, the CMRB will not be able to carry out its mission effectively.

Even though prudent business practices and sound judgment dictate otherwise, the Department is carrying out two significant procurement actions without conducting Office of Management and Budget Circular A-76 cost comparisons.

Also, while these two procurement actions will result in outside contractors managing billions of dollars of HUD funds, the CMRB had little involvement in the contracting process. The first of these actions is the procurement for Section 8 Contract Administration. In May 1999, HUD issued a request for proposals for outside contractors to administer about 18,000 of the Department's project-based Section 8 contracts. These contractors will handle about \$8 billion in annual housing assistance payments. Because HUD determined this action was not a formal procurement within the meaning of the Federal Acquisition Regulations, HUD's Office of Procurement and Contracts was not significantly involved in the technical procurement aspects of this contract even though the contract's expected annual cost is \$209 million, which represents one of the Department's most significant contract actions. The second action is the recent award of 16 contracts for the management and marketing of HUD's multi-billion dollar REO portfolio. Again, we found the Department neither validated the need for contracting these actions outside the government nor evaluated sufficiently the capacity and prior performance of the M&M contractors selected. Capacity problems resulted in the recent default of the largest M&M contractor.

We examined 12 recent procurement actions to determine if the reinforced GTR procedures and GTR certification program had actually improved the oversight and management of contracts. We found that contract monitoring deficiencies were still pervasive. For 11 of 12 contracts we reviewed, the GTR had not developed or properly implemented formal, comprehensive monitoring plans. Such plans are called for in the Office of Federal Procurement Policy's Best Practices Guide for Contract Administration. While the CPO's efforts at improving GTR oversight have been partially successful, GTRs seemed more concerned about making sure files had the correct documents to pass a perfunctory checklist inspection than they were with using the files for substantive monitoring. Increased program office emphasis is needed to ensure GTR files are maintained properly and used for monitoring.

# Chapter 2

## Operation Safe Home

Operation Safe Home is a label the OIG uses to identify three ongoing priorities for the OIG investigation and audit functions. These priorities are: violent crime and drug trafficking in public and assisted housing; fraud in the administration of public housing authorities; and equity skimming by owners and managers of FHA insured multifamily housing.

In our judgment, these types of wrongdoing warrant special attention by the OIG because they seriously undermine major HUD programs and they directly effect the quality of life of residents of HUD assisted housing. We established the Operation Safe Home priorities in 1994, and, almost 6 years later, we continue to be guided by them. Our purpose in this sustained focus is deterrence of wrongdoing, in addition to detection of wrongdoing.

The following reflects the activity, by state, for each of the three areas under Operation Safe Home.



# Violent Crime in Public and Assisted Housing

As part of their regular workload, OIG Special Agents investigate violent crime and drug trafficking in public and assisted housing. These investigations are conducted in coordination with various federal, state, and local law enforcement task forces. In addition to law enforcement personnel from states, counties, cities, and housing authorities, the following federal agencies are primary partners in Operation Safe Home: the Federal Bureau of Investigation (FBI), the Drug Enforcement Administration (DEA), the Bureau of Alcohol, Tobacco, and Firearms (ATF), the U.S. Secret Service (USSS), the U.S. Marshals Service (USMS), the U.S. Postal Inspection Service (USPS), the U.S. Customs Service (USCS), the Immigration and Naturalization Service (INS), the Internal Revenue Service (IRS), and the Department of Justice (DOJ).

Because of their law enforcement status and their knowledge of HUD programs and the people operating them, OIG Special Agents are uniquely equipped to provide witness relocation services, and to foster collaboration among local law enforcement, residents, and housing managers to sustain reductions in violent crime and drug trafficking over the long term.

Our results in all these areas are discussed below.

## Summary of Results

Activity	Current Reporting Period	Cumulative to Date
Arrested	1,718	20,402
Seized: Weapons <sup>1</sup>	169	2,862
Cash	\$433,137	\$7,522,581
Value of Drugs <sup>2</sup>	\$8,710,590	\$48,009,343
Search Warrants	368	2,688

1 Includes 15 shotguns and assault weapons seized during this reporting period, for a total of 282 to date.

2 Estimate based on measurable quantities.

## Law Enforcement Task Forces

### *California*

In **Oakland**, 131 individuals were arrested and \$17,900 in cash, over 100 marijuana plants, over 3 grams of tar heroin, 4 ounces of cocaine, small amounts of methamphetamine and rock cocaine, 500 grams of powder cocaine, 1 revolver, 1 AK-47 assault rifle, 1 vehicle, 3 cellular phones, 2 stolen credit cards, drug packaging materials, and drug paraphernalia were seized following operations by the Operation Safe Home/USMS Task Force and the Oakland Housing Authority Police/OIG Task Force. In one case, a search warrant was executed on an FHA insured unit located near scattered site public housing and Section 8 subsidized housing. The unit was directly across from the junior high school that children of public and subsidized housing families attend. Three individuals were arrested,

one of whom was a parolee who had gang affiliations to the *Border Brothers*, a Hispanic gang with Southern California ties. Two of the individuals will be deported by INS as previously deported criminal aliens. In another operation, more than 15 federal and local law enforcement agencies conducted a parolee-at-large sweep based on outstanding warrants. Seven teams of law enforcement Officers and Agents were deployed to serve high-risk warrants and apprehend federal and state fugitives, parolees-at-large, and probation violators in and around Section 8 and public housing.

Members of these Task Forces include the USMS, INS, Social Security Administration and HUD OIGs, ATF, USSS, State of California Department of Corrections, State of California Parole, California Youth Authority, Alameda County Sheriff's Department and Sexual Assault Task Force, Contra Costa County Sheriff's Department and District Attorney's Office, the San Francisco, Berkeley, Hayward, and Richmond Police Departments, and Oakland Housing Authority Police.

### ***Colorado***

As a result of a 4-month investigation in **Denver** that focused on an organized crime entity known as the *Compton Crip Riders (CC Riders)*, 38 individuals were arrested on organized crime, narcotics, and firearms charges. The investigation focused on Curtis Park, a large public housing complex. Curtis Park has become an area terrorized by the *CC Riders*; the investigation revealed that the *CC Riders* have controlled the complex since 1987. Their method of operation involves forcefully occupying innocent residents' units through home invasions. The gang then funnels narcotics and contraband into the complex until they feel police pressure, at which time they move to the next victim's apartment.

The investigation, conducted by the OIG, is being pursued under the Colorado Organized Crime Act (COCA) through the Colorado Grand Jury. This is only the fifth COCA case in the history of the Denver District Attorney's Office. Two OIG Agents were deputized as Colorado Grand Jury Investigators as part of the investigation.

### ***Connecticut***

During this reporting period, the OIG conducted several Safe Home initiatives in the **New Haven**, **New London**, and **Bridgeport** areas. These operations were carried out by the New Haven and New London Task Forces, consisting of OIG, ATF, Connecticut State Police, New London, New Haven, and Norwich Police Departments, and Inspectors from the Chief State Attorney's Office. In total, 98 individuals were arrested in and around public, assisted, and Section 8 housing, and over 206 bags of crack cocaine, 50 bags of heroin, 6 vials of methadone, nearly 1 pound of marijuana, over \$11,880 in cash, 4 weapons, including 2 12-gauge sawed-off shotguns, \$10,000 worth of furniture, televisions, VCRs, and stereo equipment, a Rolex watch, a pager, drug paraphernalia, and gang related records were confiscated. Individuals were charged with sale of narcotics to an undercover officer, criminal attempt to purchase narcotics, possession of narcotics, possession of a controlled substance, risk of injury to a minor, possession of narcotics within 1,000 feet of a school, trespassing, larceny, outstanding arrest warrants, and money laundering.

In one effort, the New London Task Force assisted the Bridgeport "Reclaim Our Connecticut City's Youth Unit" in executing four search warrants and

arresting nine individuals. This investigation was conducted in a densely populated Section 8 neighborhood.

### ***District of Columbia***

“Operation Clean,” which began in February of this year, was concluded on April 10. This was the first ever multi-agency joint operation targeted at the high levels of street narcotics trafficking and related violent crime occurring on the border of **Prince George’s County, MD**, and **Washington, DC**. This area includes a heavy concentration of HUD public and assisted housing communities. As a result of the operation, 429 people were arrested and 5,167 grams of marijuana with a street value of \$103,320, 623 grams of cocaine with a street value of \$124,500, 85 grams of heroin with a street value of \$34,000, and \$22,458 in cash were seized. In addition to “jump outs,” buy/bust operations, and surveillance posts, several undercover buys were made that were used to obtain arrest and search warrants. In addition, drug reversals were used during the last phase of the operation to target individuals who entered the area for the sole purpose of purchasing narcotics.

The post enforcement phase of the operation will consist of dedicated high visibility uniform patrols targeting the same area to continue to disrupt and contain criminal activities. In addition, efforts are underway to identify anyone arrested who is a HUD public or assisted housing resident and pursue their eviction. This operation was conducted by the ATF, DEA, OIG, USMS, Metropolitan Police Department, Prince George’s County Police Department, U.S. Attorney’s Office, and the Washington/Baltimore High Intensity Drug Trafficking Area Task Force.

### ***Florida***

The **Opa Locka Safe Home Task Force**, which consists of OIG, the Opa Locka Police Department, and the Florida Highway Patrol, arrested 17 individuals for selling drugs at the Gardens Apartments, a Section 8 development. In addition, they executed 2 search warrants which resulted in the seizure of 2 kilograms of cocaine, 2 stolen revolvers, 52 bags of marijuana, and 1 stolen vehicle. Since this Task Force operation was initiated, more than 80 individuals have been arrested for selling drugs at the development.

### ***Georgia***

In 1997, **Atlanta** was designated a “Priority City” by HUD and DOJ. U.S. Attorneys led collaborative efforts in these “Priority Cities” to reduce violent crime in public and assisted housing. At the same time, Atlanta was designated as a High Intensity Drug Trafficking Area (HIDTA). The U.S. Attorney in Atlanta agreed to conduct the Safe Home investigations through the HIDTA Task Force. After reviewing crime statistics for Atlanta public housing developments, we selected the Bowen Home public housing development as an Operation Safe Home area, due to the high crime rate and need for crime prevention strategies. The investigation at Bowen Homes resulted in the arrest of nine individuals who were members of a violent organization selling crack cocaine in the development. These individuals were all found guilty and received sentences ranging from 36 months to 120 months in prison.

While the enforcement phase of the operation was being conducted, we determined the need for a crime prevention strategy to reduce the involvement of children in drug and gang activity. In addition, a review of the grades for children living in Bowen Homes reflected that they were among the lowest in Atlanta



public schools. Our office developed a partnership with the Atlanta Housing Authority and the Fulton County government and initiated the “Promoting Alternatives, Suggesting Solutions, and Generating Excellence (PASSAGE) Program” in Bowen Homes. The PASSAGE Program is an educational based and youth oriented program to reduce juvenile violence in Atlanta public housing communities. The Atlanta Housing Authority donated space to conduct training for 60 children. The follow-up results of the program have shown that the test scores taken after the childrens’ participation in the PASSAGE Program have increased dramatically. The community has accepted the program as their own and the children and their parents are proud of their accomplishments. Due to the success of this program, U.S. Attorney Offices and other public housing developments throughout the country are requesting similar programs in their developments. In addition, the OIG has been requested to develop a “National How To Guide.”

***Illinois*** In **Rockford**, members of the SLANT (State Line Area Narcotics Team) Task Force announced the culmination of a 9-month undercover operation targeting narcotics dealers in the Jane Addams, Blackhawk, Orton Keyes, Fairgrounds Valley, and Champion Park public housing developments. During the operation, Task Force members purchased crack cocaine, for \$10 up to \$8,000, from street and mid-level narcotics dealers. Based on undercover purchases and the execution of 24 search warrants, 98 individuals were arrested for violating the Illinois Controlled Substance Act. In addition to the arrests, 25 leaseholders are currently being evicted. This Task Force is comprised of OIG, the Illinois State Police SLANT Unit, Rockford Police Department, Winnebago County Sheriff’s Office, Winnebago County State Attorney’s Office, and the Rockford Housing Authority.

In addition, as a result of Task Force operations, Elston “Jamaican Al” Henry was found guilty of distributing a controlled substance within 1,000 feet of public housing and sentenced to 13 years in prison. Henry was previously arrested by OIG Agents.

***Indiana*** Darnell Smith, also known as “Gator,” was convicted of possession with intent to deliver crack cocaine in the Delaney public housing development. He was sentenced to 100 months imprisonment. In addition, a Delaney resident was evicted under the “One Strike and You’re Out” policy. Smith was arrested in November 1997 by the **Gary** Police Department and OIG.

***Kansas*** In **Topeka**, 14 individuals were arrested under federal warrants and an additional 15 were arrested under state warrants at the conclusion of a 9-month joint investigation into drug trafficking in Topeka public housing. Of the 29 arrested, all were charged with various drug violations including possession with intent to sell methamphetamine, sale of cocaine, possession with intent to sell cocaine, and possession with intent to sell marijuana. As part of this investigation, the Task Force, made up of OIG, the Kansas Bureau of Investigation, and the Topeka Police Department, conducted over 75 hand-to-hand narcotics purchases from dealers operating within the Pine Ridge public housing development. The Task Force seized \$29,000 worth of cocaine and methamphetamine, 9 weapons, and \$1,400 in cash. The State of Kansas taxes illegal drug sales

through its Alcohol and Beverage Control Division (ABC). ABC confiscated approximately \$30,000 worth of personal items to be auctioned to the public.

## ***Kentucky***

In December 1997, the Director of Public Housing in the HUD Louisville Office requested OIG assistance in addressing the drug and violent crime problem in **Lebanon** Housing Authority developments. The Authority's executive director had resigned after receiving threatening letters when he tried to implement the "One Strike and You're Out" policy.

We met with the Chief of the Lebanon Police Department (LPD) and discovered that the drug and gang activity at the Authority's developments was out of control. The LPD had limited resources and no equipment to conduct the undercover drug investigation needed to address these problems. We also met with the Police Chiefs from two neighboring cities and worked out an agreement whereby the Police Departments would assist each other in addressing each city's problems. Unfortunately, none of the cities had the necessary equipment to carry out the investigation. The OIG was able to provide the needed equipment along with funds to pay the Police Officers overtime so they could assist the other cities. The investigation resulted in the indictment/conviction of over 60 individuals, including 30 individuals who were charged federally. The overall reported felonies from 1997 to 1998, when we initiated the Operation Safe Home investigation, dropped 16 percent, while the number of drug arrests increased 1,400 percent.

In addition, we worked with HUD's Office of Public Housing, the Lebanon Housing Authority, and the LPD to make physical improvements at the developments to ensure the safety of public housing residents. This included adding security lighting and fences and closing streets to limit drug sales around the developments. As a result of the increased Police presence, the relationship between the residents and Police has improved dramatically, and residents are now reporting criminal activity in their area. The most recent resident survey conducted by a consultant hired by the Authority reflects that the residents feel safer in their community, and feel more comfortable allowing their children to play outside. In addition, residents living in the vicinity of the developments and local businesses adjacent to the developments feel that crime in the developments has been reduced and the appearance of the developments has improved.

## ***Louisiana***

In **New Orleans**, the Safe Home Task Force, made up of the ATF, DEA, OIG, USMS, and New Orleans Police Department, continued to have an impact on the lives of those in public and assisted housing. During this period, the Task Force arrested 109 individuals and seized over 578 grams of marijuana, 540 grams of cocaine, 25 grams of heroin, \$5,020 in cash, 10 weapons, ammunition, and drug paraphernalia. In addition to Section 8 areas of the City, these operations took place in the St. Thomas, Calliope, Iberville, Melpomene, Desire, St. Bernard, and Lafitte public housing developments. Most of the arrestees were charged with drug and weapons violations or had outstanding fugitive warrants.

As a result of one Task Force investigation, Jernard Lewis was found guilty of one count each of conspiracy to distribute cocaine and use of a firearm to advance a drug conspiracy. This conviction brings to 16 the total of convicted members of the *New Orleans 7th Ward Gang Soldiers*. These gang members have been targeted for their role in what federal prosecutors called a reign of

terror in and around public and assisted housing that has claimed several lives. Sentencing has not yet been scheduled.

### ***Maryland***

O'Donnell Heights, a 900-unit public housing development in **Baltimore**, was selected for Safe Home enforcement efforts after the Baltimore Police Department identified it as a major violent crime location, as evidenced by the fact that illegal narcotics were openly sold on the premises 24 hours a day to people who work at and frequent the Port of Baltimore industrial area that surrounds the development. During this reporting period, as a result of the combined efforts of a Task Force made up of the OIG, DEA, Baltimore Police Department, and Baltimore Housing Authority Police, 71 people were arrested and over 400 packets of cocaine, 117 gel caps of heroin, \$8,000 worth of marijuana, \$30,000 worth of other drugs, 22 weapons, and several thousand dollars in cash were confiscated from O'Donnell Heights.

In support of the "One Strike And You're Out" policy, OIG will coordinate with public housing management to initiate eviction proceedings against O'Donnell Heights households where residents or guests were arrested on drug charges or have allowed their units to be used to facilitate drug sales.

In an offshoot of "Operation O'Donnell Heights," OIG Agents, Baltimore Police, and Baltimore Housing Authority Police Officers arrested 33 people during a reverse sting operation at the Pall Mall apartment complex. The complex, which is primarily made up of Section 8 units, is a well-known haven for the sale of heroin and other controlled and dangerous substances. This enforcement action was part of an "Extraordinary Comprehensive Housekeeping Operation" aimed at reducing drug sales and related violence in the area while improving the overall physical appearance of the neighborhood.

### ***Massachusetts***

"Operation Rerun" is a Safe Home effort focused on drug and gang activity in the Litchfield Terrace Apartments, a HUD insured Section 236 complex in **Worcester**. The effort has been carried out by the OIG, Massachusetts State Police, and the Leominster and Fitchburg Police Departments. During this period, 12 individuals were sentenced to a total of over 20 years in prison and over 22 years probation. These individuals were charged with, among other things, distributing marijuana, heroin, and cocaine, and conspiracy to violate the Controlled Substances Act.

### ***Mississippi***

In **Jackson**, Liliana Maldonado was sentenced to 30 years in prison for her involvement in a drug trafficking organization responsible for supplying drugs to Jackson public housing developments. Maldonado was previously convicted of possession with intent to distribute. She was initially arrested along with Roy Esparza, a Section 8 resident, by members of Gulf Coast High Intensity Drug Trafficking Area Task Force, which is made up of the FBI, DEA, OIG, USCS, Mississippi Bureau of Narcotics, and the Jackson Police Department. Esparza has already pled guilty to possession of 713 pounds of cocaine and was sentenced to 11 years in prison. In addition to these two individuals, Timothy Keys was sentenced to 6 years in a federal prison. He is the first individual to be sentenced as a result of a Safe Home operation conducted in December 1998. Keys was convicted for distribution of a controlled substance to an undercover Agent at the Jackson Apartments, a HUD insured development. Also, Patrick

Carter, who had remained a fugitive for several months after a Safe Home sweep last year and was finally arrested in Atlanta, GA, was convicted of possession with intent to distribute cocaine base and sentenced to 10 years in prison. Carter distributed drugs within HUD subsidized housing. This investigation was conducted by OIG, the Mississippi Bureau of Narcotics, and the Jackson Police Department.

**Missouri** In May of this year, members of the **St. Louis** Operation Safe Home Task Force, including Agents from OIG and the St. Louis Metropolitan Police Department's Homicide Unit, were working in the Blumeyer public housing development when they heard several shots fired. One block south of Blumeyer they discovered two victims who were lying in the street directly in front of several Section 8 units. Agents and Officers conducted initial field interviews with several eyewitnesses. One of the victims died at the scene. Two days later, Task Force members arrested the alleged shooter; he was charged with first degree murder and armed criminal action.

On the same day, Task Force members executed a search warrant in the Clinton-Peabody public housing development. They seized heroin, cocaine, and a semi-automatic pistol. The resident was not present; felony warrants for narcotics trafficking were issued against him. During a search for the resident shortly thereafter, another individual was arrested in the development for possession of marijuana.

**Montana** OIG, the **Billings** Police Department, and the Yellowstone County Sheriff's Office arrested 52 individuals, executed 4 search warrants, and seized 5 vehicles following a 6-month undercover Safe Home operation during which an undercover OIG Agent lived in public housing. To date, 73 separate charges have been filed in this case, including illegal sales of methamphetamine, cocaine, and firearms. Nine arrest warrants are currently outstanding. Residents of the public housing community expressed their appreciation for the Safe Home effort.

**Nevada** A Task Force made up of the FBI, OIG, and the **Las Vegas** Police Department executed three state search warrants and arrested two individuals on charges of selling cocaine and possession of heroin with intent to distribute. One weapon and nearly 4 grams of heroin were confiscated. The arrests were made around public housing sites in a revitalization area of Las Vegas.

**New Hampshire** "Operation Streetsweeper" is an initiative undertaken by the U.S. Attorney's Office and the **Manchester** Police Department, in conjunction with various federal, state, and local law enforcement agencies, including the OIG, to target crack cocaine trafficking and violent crime in Manchester. During this reporting period, as part of "Operation Streetsweeper," the OIG, Manchester Police Department, New Hampshire State Police, and the Hillsborough County Sheriff's Department conducted a "knock and talk" enforcement operation at suspected drug locations within public and assisted housing developments. The Task Force collected intelligence information and identified occupants of the units, in addition to being given permission to look for drug paraphernalia. At one location, Officers and Agents were invited inside after they knocked on the door and identified themselves. The resident was subsequently arrested and charged with possession of 5 ounces of marijuana.

## ***New Jersey***

Operations by the **Monmouth County**/OIG Safe Home Task Force, consisting of the DEA, OIG, New Jersey State Police, Monmouth County Prosecutor's Office, and the Asbury Park Police Department, netted 54 arrests and the seizure of \$9,600 worth of cocaine, \$8,700 worth of heroin, over \$2,200 in cash, and 8 vehicles during this reporting period. In one effort, the Task Force executed three state search warrants at public and assisted housing locations that were identified during undercover operations as significant "selling sites." In another effort, following surveillance and intelligence operations, six open-air drug markets operating in and around Asbury Park public housing developments were raided. The Asbury Park Police Department utilized its newly formed PACE Unit (Pro-Active Criminal Enforcement) during the effort. The PACE Unit consists of uniformed officers operating in unmarked vehicles. Subsequent to the raids on these drug markets, the PACE Unit utilized foot patrols in the targeted location to demonstrate a more significant police presence.

The Task Force also developed a flyer for distribution to, among other sites, community, religious, and civic groups in Asbury Park and Neptune, NJ. The flyer advocates citizen participation in reporting illegal narcotics activity. As a result of the flyer, about 30 phone calls were received which assisted in the identification of two alleged illegal drug distribution sites in Asbury Park.

## ***New Mexico***

The **Albuquerque** Operation Safe Home Task Force continued to be active during this reporting period. The Task Force arrested 4 people on drug trafficking charges and seized over 8 kilos of cocaine, 2 vans, 1 truck, \$2,100 in cash, and 1 semi-automatic handgun. Another 1/2 kilo of cocaine was previously purchased from the main target of this investigation. The operation took place at a stash house that was being rented out by the main target. The house is located about one block from an assisted housing complex, and about two blocks from a public housing complex that has been experiencing a large amount of drug trafficking. The main target owns an electronics business where he has been running his drug trafficking operation for some time. His business is located adjacent to one of the largest assisted housing complexes in the Albuquerque area. The main target and his associates are fairly large distributors of cocaine throughout public and assisted housing complexes in the Albuquerque area. In addition, they are well connected to other high level cocaine distributors in Albuquerque and in Mexico. The investigation also disclosed that many of their clients reside and/or deal in and around the various public and assisted housing complexes located throughout Albuquerque.

The Task Force is made up of the FBI, OIG, DEA, ATF, INS, the New Mexico State Police, and the Albuquerque Police Department, and operates in conjunction with the Organized Crime Drug Enforcement Task Force and Weed and Seed initiatives.

## ***New York***

In **New York City**, members of the South Jamaica Task Force, comprised of the New York City Police Department's Organized Crime Control Bureau and OIG, executed three state search warrants in the Jamaica Houses public housing development, targeting guns and drug stash locations of the *Chomp Crew* gang. Five persons were arrested and crack cocaine, cocaine, heroin, and two firearms were seized. Members of the *Chomp Crew* have been tied to the murder of a

New York City Police Department Officer who was slain while protecting a witness in a drug case.

Since April 6, 1999, efforts by the South Jamaica Task Force have resulted in the arrest of 45 individuals and the seizure of 7 vehicles, 219 glassines of heroin worth \$4,380, 150 vials of crack, 110 ziplock bags of crack, nearly 6 ounces of heroin, over 4 ounces of cocaine, over 3 ounces of marijuana, \$61,496 in cash, 6 firearms, 200 rounds of ammunition, 1 stun gun, and 1 bullet press. The Task Force has now identified and arrested the entire gang leadership and organizational structure of the *Chomp Crew*.

### ***North Carolina***

In March 1998, the **High Point** area was experiencing an extraordinary increase in violent crime and homicides, especially in public housing developments. The violent crimes included an armed assault on a police cruiser in a public housing development. In response to this increased violent crime, the OIG initiated a Safe Home operation. We provided the needed equipment to conduct undercover operations, which resulted in the arrest of 49 individuals. In addition, our Task Force seized over 3 kilos of cocaine and over 29 weapons. Following the arrests, there was a dramatic drop in violent crime, which the High Point Chief of Police attributes to the Safe Home/Violent Crime Task Force.

Even before the enforcement operation, our office was working with the High Point Housing Authority to improve the quality of life for public housing residents. Resident surveys were developed and distributed to determine needs and concerns. These concerns included fear of gang activity and gang recruitment. In order to address those concerns, the OIG developed a crime prevention strategic plan that included drug and gang prevention. These plans involved personally contacting all the identified violent probationers in the High Point area. In addition, an OIG Agent is working with the National Guard and the High Point Housing Authority as community partners and has arranged for "at risk" children to be transported to the National Guard Armory for Alternative Education. The OIG also sponsored several community activities to improve and promote resident and Police relations. During these activities, children and adults signed "Peace Cards" on which they pledged not to be involved in any violent acts. Interviews with residents after the enforcement operation and during post enforcement activities disclosed that they feel safer and believe their quality of life has improved.

### ***Ohio***

Twelve individuals were arrested in **Hamilton** and **Middletown** on federal charges of conspiracy and distribution of cocaine and seven federal search warrants were executed in an operation that targeted two major drug organizations. Six of the individuals lived in public and Section 8 housing. About \$22,000 in cash, 9 vehicles, 1 motorcycle, and 1 kilo of cocaine were confiscated. The cocaine was to be distributed at various public and assisted housing complexes in Butler County. This operation was conducted by the Columbus DEA Task Force, including DEA, OIG, ATF, the Ohio Bureau of Investigation and Identification, the Hamilton and Middletown Police Departments and SWAT Units, the Butler County Sheriff's Department, and K-9 Units from Boone County, KY.

Operations by the **Oklahoma City** Safe Home Task Force this period resulted in the sentencing of Henry Lee Cole to 10 years in prison for selling 150

**Oklahoma** grams of crack cocaine in a Section 8 complex. In addition, the Task Force arrested an individual who was suspected of being the main source of supply of narcotics to residents of another Section 8 complex. At the time of the arrest, the individual was in possession of 20 grams of crack cocaine, 449 grams of marijuana, and \$5,000 in cash. Subsequent to the arrest, Task Force members served a search warrant at the individual's home and seized 1,510 grams of crack cocaine, \$16,000 in cash, 1 handgun, 1 assault rifle, 1 weigh scale, and 2 vehicles. This Task Force is composed of OIG and the Oklahoma City Police Department.

**Oregon** An OIG Agent participated with the Oregon State Police SWAT, **Hillsboro** and **Clatskanie** Police Departments, INS, DEA, ATF, and the National Guard Air Unit in executing a high risk state search warrant on a remote single family farmhouse. Two individuals were arrested on outstanding felony warrants for distribution and possession of a controlled substance and failure to appear. Among many allegations against the individuals, they are suspected of supplying illegal drugs to at least one Section 8 resident under investigation for distribution in the Hillsboro area. Four handguns, 3 rifles, 2 shotguns, 1 crossbow with scope, 2 night vision monoculars, 2 body armor vests, ammunition, rifle magazines, 26 grams of marijuana, 10 grams of methamphetamine, drug paraphernalia, a pager, a police frequency guide, and guides on making controlled substances were seized. An Oregon State Police bomb technician was called to the scene to remove the explosive materials. As a result of this and other operations, the City of Hillsboro Police Department presented an OIG Special Agent and an ATF Special Agent with Notice of Achievements for their participation in the successful Operation Safe Home partnership with the Hillsboro Police Department's Street Crimes Unit. The partnership has resulted in the removal of drugs and weapons from the federally funded housing communities within Hillsboro. Over the past year, the Task Force has served 15 high risk narcotics search warrants that resulted in seizures of over \$28,000 in cash, weapons, and explosive devices, and recovery of stolen property.

**Pennsylvania** In December 1997, the **Pittsburgh** Police Department contacted OIG requesting assistance in combating significant violent crime and drug trafficking occurring at the Sterrett-Collier Apartments, a project-based Section 8 property. Pittsburgh Police advised that the situation had become so serious that the Sterrett-Collier property and the area adjoining it produced the highest drug and violent crime statistics in the City and that their Officers were being shot at while on routine patrol on the property. The Pittsburgh Police also advised that the Sterrett-Collier property manager was unwilling to assist Police in evicting problem tenants and was not securing vacant apartments, which caused even greater criminal activity to occur.

OIG immediately brought representatives from the property management company, HUD's Office of Multifamily Housing, and the Pittsburgh Police together to discuss the serious nature of the criminal activity occurring at Sterrett-Collier and to develop an action plan to interdict these crimes. OIG, in unison with Multifamily Housing representatives and the Pittsburgh Police, strongly urged the property manager to permanently secure vacant units, enforce eviction for lease violations, and use more effective tenant screening procedures.

OIG, in tandem with providing ongoing security advice and recommendations to the property manager, also brought law enforcement resources to bear on a group of *Crips* gang members known as the “Dogg Pound,” which controlled drug trafficking at Sterrett-Collier. In unison with the FBI Violent Crime Gang Task Force, OIG began an intensive investigation of the “Dogg Pound.”

By December 1998, OIG’s efforts to spearhead reducing crime on this property resulted in a sustained reduction of more than 50 percent in the number of drug and violent crimes occurring on the property, which crime reduction continues today. Calls for police service in the adjoining area have also been significantly dropped. More than 67 units have been permanently secured and the negligent property manager has been replaced with effective on-site management. In addition, three “Dogg Pound” gang members were indicted for federal drug violations.

### ***Puerto Rico***

In **San Juan**, the FBI, DEA, ATF, OIG, INS, IRS, USMS, USCS, USPS, and Puerto Rico Police Officers executed a total of 12 search warrants at the Villa Espana, Las Gladiolas, and Llorens Torres public housing developments. Twenty-four individuals were arrested on charges of money laundering and selling marijuana in public housing. The organization to which most of the arrestees belonged was responsible for selling over \$5 million worth of marijuana in the developments since 1998. The organization would receive the drug shipments from California and return the cash proceeds via Western Union. In addition to marijuana, 78 decks of heroin and over \$1,500 in cash were seized.

### ***Tennessee***

At the request of the U.S. Attorney’s Office for the Western District of Tennessee and the Tennessee Attorney General’s Office in **Union City**, the OIG initiated a Safe Home effort involving the Union City Housing Authority (UCHA) and the Eastgate Apartments, a private development subsidized under the Section 8 Program, which is located adjacent to UCHA developments. The first concern was to improve the relationship between the UCHA and the Union City Police Department (UCPD) through meetings and identify crime prevention strategies that would benefit both the UCHA and the UCPD. The enforcement phase of the operation resulted in the arrest of over 30 individuals on state drug charges. In addition, 14 individuals, who were members of the *Gangster Disciples* gang, were indicted by a federal grand jury. These individuals also had connections with a narcotics distribution organization in Memphis, and were responsible for two murders and numerous assaults and armed robberies in the UCHA.

The individuals who were indicted were also evicted and barred from both UCHA and Eastgate properties. This was the first time that residents had been evicted and barred from the UCHA. In addition, the UCHA provided two apartments to the UCPD to be used as mini-precincts, and bike patrols were established in the UCHA developments, resulting in reduced Police response times and a significant reduction in crime. We coordinated efforts with the HUD Office of Public Housing, the UCHA, and the UCPD to improve lighting at the developments and install security cameras and fences. The UCHA and UCPD have worked with the residents and created a Neighborhood Watch. The true success of this operation lies in the development of relationships between the UCHA, UCPD, Tennessee Attorney General’s Office, and residents in working together and developing strategies to improve the quality of life for people living in public housing.



***Texas*** The EGGHOUSE (Eliminate Gangs and Guns from Public Housing) Task Force continued its success in public and assisted housing complexes in the **Dallas** area. During this reporting period, 4 individuals were sentenced to a total of 10 years in prison, 36 months probation, \$750 in fines, and 500 hours of drug treatment. Another 4 were indicted, and 73 grams of crack cocaine, 28 grams of marijuana, and 2 weapons were seized. Charges included felon in possession of a firearm, selling drugs in a Section 8 neighborhood, and making false statements to gun dealers in the vicinity of subsidized housing complexes (failing to disclose a previous conviction). This Task Force is made up of the ATF, OIG, and Dallas Police Department.

***Washington*** Continuing joint efforts in **Seattle** public and assisted housing communities by OIG and the Seattle Police Department (SPD) resulted in the arrest of 8 individuals. In one effort, a Section 8 resident was arrested on an outstanding warrant for theft. During a search, incident to the arrest, a glass crack pipe was located on the resident; the pipe tested positive for cocaine. The OIG is pursuing eviction of the resident. This arrest and search were conducted under the auspices of the steering committee for the Seattle Housing Authority's Safe Neighborhood Grant. Under this Committee, an OIG Agent works with an SPD Community Police Team Officer conducting "knock and talks," serving warrants, and effecting arrests. Also under a joint Safe Home/Safe Neighborhood Action Grant activity, an SPD Officer and an OIG Agent arrested two Section 8 residents on outstanding warrants for theft and driving under the influence. The residents were previously advised to take care of the outstanding warrants to avoid arrest, but failed to do so. SPD and OIG are working with owners and management to urge residents to address outstanding warrants.

## **Witness Relocation**

OIG continues to work with HUD, local police and prosecutors, and federal, state and local law enforcement agencies in facilitating the relocation of witnesses fearing reprisal for the assistance they provide prosecutors in addressing violent crime occurring in publicly funded housing. During this semiannual reporting period, OIG assisted in the relocation of 37 witnesses/families, bringing the total number of families relocated since the inception of Operation Safe Home to 637.

# Fraud in Public Housing Administration

OIG continues to focus significant resources and priorities on detecting and prosecuting fraud in the administration of HUD's Public Housing Programs.

The following reflects the work that was accomplished relating to fraud in Public Housing Program administration during this reporting period and since the inception of Operation Safe Home:

## Summary of Results

Activity	Current Reporting Period	Cumulative to Date
Indictments	38	181
Plea Agreements/Convictions	8	132
Sentences Imposed		
Jail	53 months	1,266 months
Probation	181 months	3,089 months
Fines/Restitution	\$41,489	\$2,617,975

### *Alaska*

In **Fairbanks**, a federal grand jury indicted a former Interior Regional Housing Authority accounting specialist for embezzling \$142,018 from the Authority between June 1996 and October 1997. The indictment charged 42 counts of money laundering and 1 count of defrauding a federally funded organization. OIG and the FBI conducted this investigation, which included, among other things, tracing the laundered/stolen funds through 13 accounts held at 2 credit unions.

In conjunction with this case, the Fairbanks Office of the FBI provided a Certificate of Appreciation, signed by FBI Director Louis Freeh, to an OIG Special Agent for "outstanding assistance in a joint investigative effort." The Certificate went on to state that "your contributions were immeasurable, and you have the gratitude of the FBI for all you did to help accomplish the objectives of the investigation."

### *California*

Three individuals with outstanding arrest warrants, who were previously indicted as a result of an investigation of current and former **San Francisco** Housing Authority employees soliciting and accepting bribes in exchange for Section 8 certificates and public housing units, surrendered to authorities in San Francisco and Atlanta. Thirteen of the 14 individuals charged to date have been apprehended. This investigation was conducted jointly by the FBI and OIG.

### *District of Columbia*

Cherly Jackson, a former **District of Columbia** Housing Authority property manager, was sentenced to 90 days in jail (suspended), 2 years probation, and 500 hours of community service, and was ordered to pay \$3,230 in restitution to her victims. The sentencing followed a negotiated plea by Jackson to one count of felony theft. An OIG investigation disclosed that Jackson stole over \$3,000

from three Authority residents. The residents, all of whom were vulnerable due to either age, physical, or mental handicap, relied on Jackson to complete the payee portion of money orders they presented to her in payment of their monthly rent. Instead of making the money orders payable to the Authority, Jackson filled in her own name and deposited them into her bank account, or delivered the money orders as payments to her own creditors. Jackson resigned immediately after being interviewed by an OIG Agent.

### ***Florida***

Following an investigation by the OIG Offices of Investigation and Audit, Pauline Wamble, the former executive director of the **Walton County** Housing Authority, was sentenced to 13 months imprisonment, 28 months supervised release, and 6 years probation, and was ordered to pay \$620,000 in restitution. Wamble was previously indicted by a federal grand jury on 22 counts of mail fraud. She created 33 fictitious tenants, landlords, and Section 8 rental properties, and then embezzled the Section 8 rent payments. She also caused Section 8 payments to landlords, including members of her family, who were not entitled to the payments. Wamble used the \$620,000 she embezzled to pay for real estate, personal expenses, and college tuition for family members.

### ***Georgia***

Agents from the ATF and OIG, along with Dekalb County Arson Investigators, executed a federal search warrant on the private residence of a contractor who did business with the **Atlanta** Housing Authority. The affidavit alleges that the contractor submitted false invoices to the Authority for nonexistent employees or for employees who did not work at Authority developments; illegally owns automatic weapons; tried to burn his office to collect the insurance money; and concealed assets when he filed for bankruptcy. The execution of the warrant resulted in the seizure of 12 weapons and numerous boxes of records.

### ***Illinois***

One individual was indicted by the Lake County State Attorney's Office on two counts of official misconduct for her role in the diversion of federal funds from the **North Chicago** Housing Authority. As the former Section 8 manager for the Authority, she received \$100 per month for each unit occupied by a "ghost" tenant and diverted more than \$9,000 to a Section 8 landlord. This was a joint investigation by the OIG and the Lake County State's Attorney Office of Special Investigations.

### ***Indiana***

Victor Abdullah was sentenced to 21 months imprisonment and 3 years probation, and ordered to pay \$1,489,000 in restitution after pleading guilty to 1 count of wire fraud and 2 counts of false statements. An investigation by the FBI and OIG disclosed that Abdullah presented a counterfeit performance bond for approximately \$2.2 million for construction work contracted by the **Michigan City** Housing Authority. The construction contract had to be terminated by the Authority due to the inability of the contractor to meet construction deadlines. A bonding company was contacted to fund completion of the project. Abdullah had no authority to issue the performance bond on behalf of the bonding company.

### ***Kentucky***

Ronald G. Bersaglia, former executive director of the **Hazard** Housing Authority, and his wife, Lisa M. Campbell, who replaced her husband as executive director, were sentenced to 1 year probation and 3 years supervised release for falsely certifying that Hazard Housing Authority developments met HUD housing quality standards (HQS). Bersaglia and Campbell were previously indicted by a federal grand jury on two counts of making false statements on a HUD form certifying that the developments met HQS. This was the first time that individuals have been criminally charged for falsely certifying that public housing units met HQS. The defendants were previously convicted of conspiracy to obtain controlled substances and 17 counts of possession of a controlled substance, and were sentenced to 4 months home confinement and 3 years probation. This investigation was conducted by the FBI, Kentucky State Police, and OIG Offices of Investigation and Audit.

### ***Minnesota***

Following a joint operation by the OIG Offices of Investigation and Audit, 2 individuals were each indicted on 1 count of conspiracy and 1 count of theft of government money for receiving a payment of \$290,051 for construction materials which were never provided, or for construction materials for which payment had already been received, thereby “double-billing” for materials. The materials were to be used to construct 25 new homes for the White Earth Indian Reservation Housing Authority in **Minneapolis**.

### ***New York***

The chairman of the **Huntington, Long Island** Housing Authority and a public safety officer were indicted on charges of conspiracy to defraud HUD, theft of HUD funds, and money laundering. The chairman was also charged with extortion and income tax evasion. The indictment charges the chairman with using landlords to hide his ownership in a property rented to a Section 8 resident. The defendants continued to collect rent payments for 2 years after the resident moved out, resulting in a \$30,000 loss to HUD. The chairman was separately charged with using his union position of shop steward to threaten violence and labor shutdowns in order to extort thousands of dollars from construction companies. The companies were forced to pay him for work as a safety coordinator, which work he did not perform. The chairman was also charged with failing to report over \$130,000 in extortion payments and embezzled HUD funds to the IRS. This was a joint investigation by the FBI, IRS, and OIG.

### ***Oklahoma***

Robin Hatfield, former executive director of the **Caddo** Housing Authority, was sentenced to 3 months imprisonment and 4 months home confinement, and ordered to pay \$60,970 in restitution to the Authority and HUD. Hatfield was previously convicted on one count of theft of funds from a government funded organization. The sentencing resulted from a joint investigation by the HUD and Department of the Interior OIGs which disclosed that Hatfield was coerced and threatened by her former boyfriend to write Housing Authority checks made payable to him and his relatives. The judge imposed a lighter sentence since Hatfield cooperated with federal authorities by providing information regarding her former boyfriend. The boyfriend was subsequently indicted, has pled guilty, and is currently awaiting sentencing.

## ***Pennsylvania***

John Marra, former executive director of the **Fayette County** Housing Authority, pled guilty to one count of conspiracy to solicit bribes, three counts of theft, and one count of destruction of evidence. Marra's conviction followed the cooperation of Edward and Eloise Festor, former contractors who previously pled guilty to charges of submitting false statements and filing false tax returns. The Festors engaged Marra in consensually monitored conversations during which Marra made incriminating statements. Between 1985 and 1993, Marra solicited cash bribes and kickbacks from the Festors amounting to about 15 to 20 percent of the \$1.3 million in moving, asbestos removal, and termite extermination contracts awarded to their companies. In return, Marra instructed the Festors what to bid on contracts in order to defeat competition. Marra even helped them evade bonding requirements. Marra will be sentenced in November 1999, and could receive a maximum of 5 years in prison, a \$250,000 fine, and restitution.

Edward Festor and Eloise Festor were sentenced to 5 years probation on each charge, to be served concurrently, in addition to special assessment fees of \$150 each. No restitution was ordered in light of pending IRS obligations, estimated to be in excess of \$40,000, and their cooperation in the investigation of Marra.

Marra's plea and the Festors' sentencing culminated a joint 5-year investigation of public corruption in the Fayette County Housing Authority conducted by the FBI and OIG Offices of Investigation and Audit.

## ***Puerto Rico***

Two individuals, who were indicted on charges of conspiracy to defraud HUD and embezzlement from the Puerto Rico Housing Authority, were sentenced in **San Juan**. A third pled guilty. Edwin Rodriguez-Tirado was sentenced to 2 years in prison and 3 years supervised release, and was ordered to pay \$192,000 in restitution to HUD and a \$100 assessment. Jose Rios-Ramirez was sentenced to 2 years in prison and 3 years supervised release, and was ordered to pay \$548,840 in restitution to HUD and a \$200 assessment. Ruben Monroig-Almodovar, a former Authority employee, pled guilty to one count of embezzlement. The indictment alleged that Monroig-Almodovar approved unauthorized checks to a private management company that manages some of the Authority's developments. After the checks were issued, Rodriguez-Tirado and Rios-Ramirez intercepted the checks and deposited them in bank accounts they had set up in the name of the management company. The amount of funds embezzled totaled \$1,034,733. Monroig-Almodovar will be sentenced in February 2000. This investigation was conducted by the FBI, OIG Offices of Audit and Investigation, and the Office of the Comptroller of Puerto Rico.

## ***Tennessee***

William Coleman III, the former maintenance supervisor for the **Bristol** Housing Authority (BHA), and William Blackwell, a contractor, were sentenced in U.S. District Court. Coleman was sentenced to 12 months imprisonment and 2 years supervised release. Blackwell was sentenced to 8 months home confinement and 3 years supervised release. Coleman and Blackwell were previously indicted on two counts of bribery. The charges related to kickbacks paid to Coleman by Blackwell in order to receive rehabilitation contracts at the BHA. Blackwell cooperated during the investigation by making three controlled payments to Coleman. Blackwell also admitted supplying falsified rival bids and

paying close to \$30,000 in kickbacks to Coleman. Blackwell received over \$130,000 in contracts with the BHA over the past 3 years. This was a joint effort by the OIG Offices of Audit and Investigation and the Bristol Police Department.

**Texas** Glenda Bryant Langdon, former executive director of the **Pineland** Housing Authority, pled guilty to one count of theft of funds from a government funded organization. The plea was the result of an OIG investigation which disclosed that Langdon embezzled property valued at at least \$5,000 that was owned by the Authority. The property included appliances and rental income. No date has been set for sentencing.

The former executive director of the **Knox City** Housing Authority was indicted on charges of forgery and theft. A joint investigation by the Texas Ranger Division of the Texas Department of Public Safety and OIG disclosed that the former executive director allegedly misappropriated about \$70,000 of Authority funds and converted the funds for personal use. The executive director resigned from the Authority in November 1998. Although an independent auditor conducted an audit of the Authority for the years 1994-1996 and recommended the employment of a fee accountant, the former executive director assured the board of directors that no fee accountant was needed, even though Authority bank deposits were not made timely, the bank account was overdrawn, and certificates of deposit had been cashed to cover shortages. No further judicial dates have been set at this time. The Texas Ranger Division had requested that the matter be presented to the U.S. Attorney for consideration of federal prosecution.

This case stemmed from a Housing Fraud Initiative investigation. See Chapter 3 for more information on the Housing Fraud Initiative.

## Equity Skimming in FHA Insured Multifamily Housing

Equity skimming is the willful misuse of any part of the rents, assets, proceeds, income or other funds derived from an FHA insured multifamily project covered by the mortgage. The use of project assets or income for other than reasonable operating expenses and necessary repairs, or for the payment of unauthorized distributions to the owner, constitutes a violation of the Regulatory Agreement between the owner and HUD.

The misuse or diversion of project assets and income by owners of insured multifamily projects plays a significant part in the realization of losses to the FHA insurance funds. Further, equity skimming deprives projects of needed funds for repairs and maintenance. This in turn contributes to the financial and physical deterioration of projects and the resultant substandard living conditions for the families who depend on the Federal Government to provide housing. The communities where these projects are located also suffer because the projects become the breeding ground for crime, violence, and drugs.

Under Operation Safe Home, we have expanded both civil and criminal enforcement opportunities and have streamlined referrals of civil cases to the

U.S. Attorneys for prosecution. This has helped speed up the resolution of those cases where we have found equity skimming.

The following reflects the work that was accomplished during this reporting period and since the inception of Operation Safe Home:

Current Reporting Period			
Type of Enforcement Activity	Cases	Potential Amount	Repayments Required
New Cases Identified	2	\$1,828,000	
Cases Completed	9		\$5,272,590
Cumulative Activity			
Type of Enforcement Activity	Cases	Repayments Required	
Settlements	104	\$ 69,116,934	
Court Judgments	16	\$ 17,562,524	
Criminal Convictions	27	\$ 4,047,170	

**Arkansas** In **Hot Springs**, a federal grand jury returned a two-count indictment against a property manager charging him with submission of false statements and theft of project funds. The individual served as the property manager for two HUD subsidized properties which housed disabled citizens. A joint investigation by the OIG and the FBI disclosed that the individual diverted nearly \$100,000 of project funds for his own use. He also failed to make payments for utilities and payroll taxes, causing the utility company and the IRS to threaten to close down the projects. Although the management agreement limited the property manager's fee to less than \$400 per month, the manager admitted that he "needed to live" on the monies he diverted. No trial date has been set.

**California** The Justice Department filed a civil action on behalf of HUD against the owners of two multifamily projects in **Fresno** for damages arising from the unauthorized use and unsupported expenditure of \$677,000 in project assets and income of HUD insured multifamily projects. The owners made unauthorized withdrawals of \$134,000, diverted \$66,000 of income, spent \$411,000 on unnecessary or unsupported expenses, and paid \$66,000 for unnecessary or unsupported management fees. For one project, the owners subsequently defaulted on the insured mortgage loan, ultimately resulting in a \$1.16 million loss to HUD. The civil action resulted from a May 1997 OIG audit.

**Connecticut** The U.S. District Court in **New Haven** awarded the government a judgment in the amount of \$4,019,431 against three defendants in the case of West Street Apartments, a 65-unit HUD insured complex. This amount consists of double the disbursements that were made by the project owner in violation of the Regulatory Agreement with HUD. In addition, the government was awarded reasonable attorney and auditor fees, plus interest owed on all awards calculated from the time the disbursements were made.

This case stems from a 1996 OIG review of the project. OIG referred the case to the U.S. Attorney's Office for possible civil prosecution and in September 1996, the Assistant U.S. Attorney filed a complaint in U.S. District Court. The complaint alleged failure to make mortgage payments since July 1995, equity skimming in excess of \$330,000, including over \$220,000 paid directly to the project owner after the mortgage default, and failure to replace the management agent as required by HUD. In July 1997, after the case was sidetracked in bankruptcy court, a motion to reopen the double damages civil litigation was filed against the project owner, the general partner, and the identity of interest management company. In July 1998, the Court granted the government's motion for summary judgment and motion for possession of the project. HUD took possession of West Street Apartments the same month.

***Indiana*** The owner of Woodbrook Associates in **Indianapolis** was ordered to pay \$134,524 plus interest to the government after a federal judge ruled in favor of a civil equity skimming lawsuit filed in January 1998. In a post trial hearing, testimony of an OIG Special Agent, the Assistant U.S. Attorney litigating the case, and an expert witness resulted in a final judgment order awarding an additional \$84,918, representing the costs of investigation and litigation. An OIG investigation disclosed that the owner improperly used FHA insured project funds for payments to related parties, bankruptcy related expenses of the partnership, partnership secretarial services, and partner travel expenses.

***Kansas*** James W. Blankenship, a former project owner and management agent in **Kansas City**, was sentenced on 1 count of embezzling more than \$67,000 from two apartment complexes he managed. A joint effort by OIG Agents and Auditors and the FBI disclosed that Blankenship stole project funds for his personal use, including funding other real estate investments. Both complexes experienced physical deterioration during Blankenship's tenure. Blankenship was sentenced to 10 months in prison and 3 years probation, and ordered to pay restitution of \$25,000 in connection with the HUD related embezzlement, \$20,000 to 2 bilked investors, and a \$100 special assessment.

***Louisiana*** In **Baton Rouge**, the owner of a 200-unit HUD insured multifamily complex was indicted on 13 counts of multifamily equity skimming, 8 counts of mail fraud, and 8 counts of laundering of monetary instruments. The indictment was the result of a joint effort by the OIG Offices of Audit and Investigation and the Louisiana State Police, which determined that between 1992 and 1995, the owner allegedly diverted \$468,956 in project funds to a bank account in New Orleans and converted the funds for his personal use. Each diversion was made via a memorandum written by the owner and submitted to the management agent, who immediately mailed a check to the owner.

***Missouri*** Dean Burns, a **St. Louis** County development official, pled guilty to 1 count of multifamily equity skimming after diverting \$29,800 in security deposits from two HUD insured housing developments. Burns misapplied the tenant security deposits during a time when the projects were in default or in a non-surplus cash status.

The Justice Department's Civil Division is continuing to pursue the violations under HUD's civil equity skimming statute. The suit contends that \$1.4



million was improperly diverted from three apartment complexes. The United States requested the court award double the amount of the diverted funds, plus accrued interest, audit costs, attorneys' fees, and equitable relief. These actions have resulted from work by the OIG Offices of Investigation and Audit.

***New York*** Linden Realty Associates, the former owner of the Noble Drew Ali Plaza in **Brooklyn**, pled guilty to one count of multifamily equity skimming. Leon Mochkin, a partner of Linden Realty Associates, also pled guilty to one count of intent to defeat the lawful purpose of HUD. Linden Realty Associates has been ordered to pay criminal restitution in the amount of \$106,500 plus civil damages of \$557,500 to HUD. This payment is in addition to the \$1,081,000 paid to Noble Drew Ali by court order in late 1995. Leon Mochkin will be sentenced in October 1999. The former site manager, Victor Zilber, pled guilty in May 1999 to one count of evasion of payment of taxes. Zilber's sentencing has not yet been scheduled. This was a joint effort by the OIG Offices of Audit and Investigation.

Abraham Woldiger and Abraham Taub, owners of several project-based Section 8 and insured multifamily dwellings in Illinois, Rhode Island, Pennsylvania, New Jersey, and New York, pled guilty in **New York City** to one count each of obstruction of a federal audit. In addition, both Woldiger and Taub were ordered to pay \$1.8 million by December 15, 1999. This dollar amount represents the amount owed to the government and includes an assessment for fines and penalties. Sentencing has not yet been scheduled. Woldiger and Taub, along with others, created several identity of interest (IOI) companies to manage and maintain the properties they owned. The most notable of these companies was Blackstone Realty Management.

The investigation began as a result of an OIG audit of Blackstone Realty which disclosed that a number of the IOI companies had submitted several invoices which charged the FHA insured developments for work either never performed or poorly done. The audit also disclosed that an IOI maintenance company inflated job costs for work completed, then repeatedly billed the FHA insured developments for the same work. This was a joint investigation by the FBI and the OIG Offices of Audit and Investigation.

***Pennsylvania*** An OIG audit of the 20th & South Street Apartments, a multifamily insured project in **Philadelphia**, disclosed that during the period the project mortgage was in default, the owner used over \$100,000 of project funds for other than reasonable operating expenses. On September 27, a settlement agreement was reached between the Department of Justice and the owner to settle the claims stemming from the audit. The owner has agreed to pay HUD \$75,000.

***Puerto Rico*** In an unparalleled recovery of damages resulting from an OIG equity skimming case, \$15.8 million has been collected from the Hato Rey Psychiatric Hospital in **Bayamon**, including the original amount taken from the project, legal and audit costs, and double damages. What began as a routine OIG audit of the Psychiatric Hospital's nursing home operations in 1991 led to the discovery of violations by the owners and operators of this HUD project, who skimmed project funds for their own use at a time when the project mortgage was in default, or the project lacked surplus cash funds. About \$5.4 million was determined to have been taken from the project.

After collaboration between the OIG and the HUD Office of General Counsel in Atlanta, GA, the matter was referred to the U.S. Attorney in Puerto Rico. The U.S. Attorney for the District of Puerto Rico observed that “the government accomplished all of its goals: collected its mortgage in full, imposed a civil penalty, collected its costs and sent a message that violations to Regulatory Agreements and HUD laws and regulations will not be left unpunished.” The \$15.8 million received pays the mortgage in full; HUD no longer has any connection with this facility.

### ***Rhode Island***

In **Providence**, a settlement agreement was executed between HUD, the U.S. Attorney’s Office, and Property Advisory Group, Inc. (PAG) in which PAG agreed to pay the United States \$422,305. This action stemmed from an OIG audit.

PAG is a property management company which owns and/or operates a Section 8 Resident Service Coordinator Program at eight HUD assisted multifamily properties in the State of Rhode Island. Between November 1994 and May 1997, PAG requisitioned funds for the Resident Service Coordinator based on budgeted amounts rather than on actual costs. PAG made these claims by filing a monthly “Housing Owner’s Certification and Application for Housing Assistance Payments” for the eight projects it managed. This resulted in substantial and unwarranted overpayments by HUD to PAG.

HUD’s Office of General Counsel, along with the Civil Division of the U.S. Attorney’s Office, pursued recovery under the False Claims Act and the Program Fraud Civil Remedies Act.

# Chapter 3

## **Housing Fraud Initiative**



# Housing Fraud Initiative

The OIG Housing Fraud Initiative became fully operational during this reporting period. The Initiative is a proactive law enforcement effort to systematically examine how HUD program funds are being spent to see if there are indicators of fraud. If fraud is detected, Housing Fraud Initiative teams will work with the local U.S. Attorneys and the FBI to develop prosecutable cases.

The Housing Fraud Initiative arose out of a concern by the members of the House Appropriations Subcommittee on VA, HUD, and Independent Agencies that HUD funds may not be reaching those in need, due to willful fraud on the part of HUD program participants or administrators. To address this concern, teams of Criminal Investigators and Auditors, under the overall supervision of the OIG Office of Investigation, have been assembled to pursue concentrated housing fraud inquiries in specific geographical areas. The teams, which total about 150 employees, will stay in place long enough to provide reasonable assurance that HUD funds are reaching their intended beneficiaries.

The OIG works closely with U.S. Attorneys for the 94 Federal Judicial Districts when it develops its criminal and civil cases. Consequently, it makes sense to use the U.S. Attorney's jurisdiction – the Judicial District – as the focus of Housing Fraud Initiative efforts. The selection of specific Judicial Districts for the Housing Fraud Initiative was determined arithmetically, using FBI and OIG data to indicate Judicial Districts having the highest potential for HUD related fraud activity. The six Judicial Districts are: (1) Eastern New York, including part of New York City and Long Island; (2) Maryland; (3) Washington, DC; (4) Northern Illinois, including Chicago and Rockford; (5) Central California, including Los Angeles County, San Bernardino County, Orange County, and Ventura; and (6) Northern Texas, including Dallas, Fort Worth, and Lubbock.

The Housing Fraud Initiative focuses on the Single Family and Multifamily Mortgage Insurance Programs, and on the Section 8 Project-Based Assistance Program, which are administered by the private sector. The activities of private sector contractors who are paid from HUD funds, whether through HUD contracts or intermediary contracts, are also being examined. In addition, investigations are focusing on the administration of Public Housing Programs, including HOPE VI and the Drug Elimination Grant Program. Finally, the Initiative will look for fraud in the HOME, Community Development Block Grant, Empowerment Zone, and Homeless Programs, under which HUD generally provides funds to cities, which then implement the programs either directly or through nonprofit organizations or other private sector entities. Fraud by public housing residents or those receiving individual subsidies, in terms of underreporting income in order to gain access to HUD funded housing, will generally not be a focus of the Initiative.

After organizing the Initiative, collaborating with U.S. Attorneys and the FBI, intensifying our recruitment efforts to hire Criminal Investigators and Auditors for the various teams, and conducting an enhanced program fraud training program, we began seeing the results of some of our investigations during this reporting period. This Initiative presents exciting opportunities for interdisciplinary

nary teamwork between our Offices of Investigation and Audit, and promises to enhance our fraud-fighting efforts in a systematic way. The following are examples of Initiative results to date.

### ***California***

In **Los Angeles**, real estate agent Elizabeth Salcedo pled guilty to one count of conspiracy and one count of fraud against HUD. Salcedo conspired to manufacture false gift letters, verification of employment forms, and other FHA loan documentation. She committed the fraud in order to make unqualified mortgagors appear qualified for FHA insured home loans. HUD has paid a claim of \$18,200 on 1 of the fraudulent loans and 2 others are currently in default waiting for the properties to be resold. This investigation was conducted by the OIG.

### ***Illinois***

Several initiatives took place in **Chicago** during this reporting period. For example:

Belinda Lopez pled guilty to one count of providing false statements to a bank. Lopez was involved in a loan origination scheme and caused the creation and submission to lending institutions of false documents purporting to establish the eligibility of prospective purchasers to receive HUD insured mortgages. These documents included false gift letters, false employment history and income verifications, false bank statements and credit histories, and cashiers' checks that were photocopied and falsely identified as being deposited in escrow. This was a joint investigation by the FBI and OIG.

Capria Gale pled guilty to one count of a three-count indictment charging her with obstructing and impeding the due administration of the Internal Revenue Code, aiding and assisting in the preparation of false federal income tax returns, and forging and counterfeiting documents for the purpose of obtaining a HUD insured loan. Sentencing is pending. This was a joint investigation by the OIG and the IRS Criminal Investigation Division.

One individual was indicted on three counts of mail fraud, false statements, and misuse of a Social Security number in connection with a loan origination scheme. The individual is also alleged to have caused the creation and submission to lending institutions of false and fraudulent documents purporting to establish the eligibility of prospective purchasers to receive HUD insured mortgages. These documents included false gift letters, false employment history and income verifications, and false bank deposits.

In the same case, a federal grand jury returned a 19-count indictment charging a property owner and her associate with defrauding various mortgage lenders, HUD, other creditors, and U.S. Bankruptcy Trustees. The indictment alleges that the owner, who also used several aliases, schemed to obtain HUD insured and conventional mortgages by using false Social Security numbers and false employment and credit information, then occupied the properties or skimmed rents from the premises without paying the mortgages, utilities, or property taxes. When threatened with foreclosure and sale of the properties, the owner filed repeated Chapter 13 bankruptcies, providing false employment and other income information, using false names and Social Security numbers, and concealing prior bankruptcies to stop lenders and other creditors from proceeding

against her. Once the owner had the benefit of the bankruptcy law's automatic stay of collection proceedings, she would not pay the required payments to the Bankruptcy Trustee for past debts or pay current expenses, as required to obtain Bankruptcy Court protection, or would not file reorganization plans. The owner was charged with seven counts of bankruptcy fraud, four counts of mail fraud, two counts of bank fraud, one count each of wire fraud and using a false Social Security number, concealment of assets, and making false statements involving HUD loan transactions. The owner's associate was charged with one count of bankruptcy fraud and one count of making false statements involving HUD loan transactions. This was a joint investigation by the FBI and the HUD and Social Security Administration OIGs.

Four individuals were indicted on 1 count each of racketeering and 29 counts of mail fraud for their part in a scheme to falsify the conveyance of property deeds relating to 13 vacant properties. The deeds were allegedly falsified to make it appear that there was a transfer in title from the original owner to one of these four individuals or to one of their "straws" or "nominees." The original owner was unaware of the transfers. Through the use of false notaries and forgeries, the individuals allegedly used the mail to send the deeds to the recorder's office. Then, by gaining access to the properties through a variety of means, the individuals used the properties for their own residences, rented them out and collected rental income, used them as collateral for real estate loans, or used them as inventory to be sold to unwitting buyers. Two of the properties were in HUD's real estate owned inventory at the time the false transactions took place. This was a joint investigation by the FBI, OIG, and Postal Inspection Service.

**Maryland** Edward Brockmeyer, a Section 203(k) fee inspector in **Baltimore**, pled guilty to a one-count conspiracy charge for his role in defrauding the HUD's Single Family Programs. Brockmeyer conspired with now incarcerated members of the John Baumgarten family, Shawn Mahn, Warren Rollman, and others to make false statements on at least 31 loans through the Section 203(k) Rehabilitation Home Mortgage Insurance Program. This resulted in more than a \$300,000 loss to the mortgage lender and HUD. Brockmeyer submitted false inspection reports in order to obtain and divert rehabilitation funds for properties when in fact work was not completed. Sentencing has not yet been scheduled.

In the same case, a HUD approved property inspector was indicted on charges of conspiracy, making false statements, and aiding and abetting. The indictment alleges that from March 1995 through March 1997, the property inspector conspired with a husband and wife and Warren Rollman to successfully divert \$135,836 from HUD's 203(k) Program. The 203(k) funds were obtained through the use of false and fraudulent inspection reports, which verified the completion of rehabilitation work that had never been performed. The husband and wife are former loan originators with Atlantic First Mortgage Corporation and are both currently awaiting trial after being indicted on similar charges. Rollman purchased 14 properties using his girlfriend as a strawbuyer and has since pled guilty to other federal charges. This was a joint investigation by the FBI, IRS, and OIG Offices of Audit and Investigation.

Two individuals in **Greenbelt** were charged with bank fraud for allegedly stealing at least \$119,000 from the escrow account maintained by Lawyers

Advantage Title Group (LATG), HUD's closing agent for Maryland and Northern Virginia. A joint investigation by the OIG and the FBI developed evidence that the two individuals, who appear to have no connection to LATG, obtained specimen checks from the closing agent, which they counterfeited and negotiated. They are also charged with stealing an additional \$129,000 from two other private companies in the same manner.

OIG and **Baltimore** Housing Authority Police Department Officers executed search warrants at the residences of two Section 8 recipients and seized documentation indicating that they were involved in selling at least 20 phony Section 8 vouchers for \$750 each. One of the suspects was previously relocated by the State Attorney under the State's Witness Protection Program. In addition, seven vials of crack cocaine and related drug paraphernalia were seized.

***New York*** Following a joint FBI/OIG investigation, Caroline Rodriguez was issued a notice of debarment by HUD for a period of 3 years. While employed as a bookkeeper with the San James Realty Company in **New York City**, Rodriguez conspired with her husband, Edward Rodriguez, a San James Realty project manager, and Sandra Lopez, the San James Realty Company's office manager, to embezzle nearly \$120,000 from the operating account of the Grand Street multifamily assisted housing development. The three defendants embezzled project funds, using a total of 109 forged San James Realty checks made payable to themselves. They cashed the checks and used the stolen funds for personal expenditures. Once the checks were returned from the bank, the defendants altered them to fraudulently indicate payments to vendors and contractors for services purportedly rendered.

Rodriguez was previously sentenced to 2 months in prison, 4 months home detention with an electronic monitoring device, and 3 years probation, and was ordered to assist in paying \$64,000 in restitution and to pay a \$50 court assessment.

***Texas*** In **Dallas**, Tronnald Louis Dunaway and Shelby Lee Daniels, two investors indicted in March 1999, pled guilty to bankruptcy fraud. A joint investigation by the FBI and OIG disclosed that the investors conspired to fraudulently obtain an initial \$500 set-up fee, along with a \$500 monthly income, from multiple homeowners who were able to avoid foreclosure on their residences by filing bankruptcy. The perpetrators had obtained lists of Dallas/Fort Worth area homes that were scheduled for foreclosure and mailed the homeowners advertisements stating that the homeowners could retain their properties by paying a \$500 monthly fee for 6 months, regardless of the amount of their existing mortgage payment. The perpetrators then transferred a percentage interest in the properties to a shell company through an assumption deed. This company was then placed into Chapter 11 bankruptcy, which listed the homeowners as co-debtors, thereby allowing the homeowners to retain their credit without filing a personal bankruptcy. The bankruptcy filings prevented the mortgage companies from completing foreclosures against the properties, thereby causing additional costs to be incurred by the lenders and HUD. Approximately 22 properties were involved in the scheme, with an estimated loss to HUD of over \$400,000.

The former executive director of the **Knox City** Housing Authority was

indicted on charges of forgery and theft. A joint investigation by the Texas Ranger Division of the Texas Department of Public Safety and OIG disclosed that the former executive director allegedly misappropriated about \$70,000 of Authority funds and converted the funds for personal use. The executive director resigned from the Authority in November 1998. Although an independent auditor conducted an audit of the Authority for the years 1994-1996 and recommended the employment of a fee accountant, the former executive director assured the board of directors that no fee accountant was needed, even though Authority bank deposits were not made timely, the bank account was overdrawn, and certificates of deposit had been cashed to cover shortages. No further judicial dates have been set at this time. The Texas Ranger Division had requested that the matter be presented to the U.S. Attorney for consideration of federal prosecution.

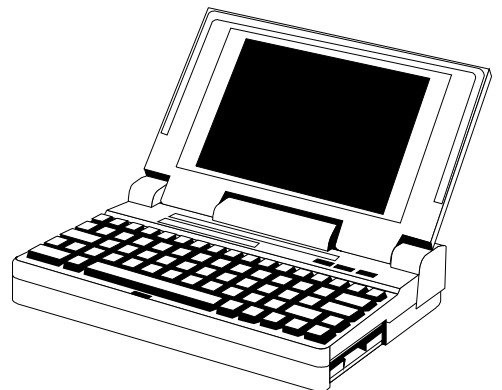


# Chapter 4

## Audits

In addition to evaluating HUD's management reform issues, conducting audit work in support of Operation Safe Home, and commenting on regulations and legislative proposals, the OIG's Office of Audit continued to monitor HUD programs and operations through audits. During this reporting period, the Office of Audit issued 7 reports and 7 audit-related memoranda on internal HUD operations, and 9 reports and 12 audit-related memoranda on grantees and program participants. (See Appendix 1 for a listing of the audit reports issued.) Cash recoveries amounted to \$28.6 million with another \$8.6 million in commitments to recover funds, and civil judgments totaled \$1,296,815.

During this reporting period, the Office of Audit's major focus was audits related to HUD 2020 Management Reform efforts. These audits, which are discussed in Chapter 1, required a major investment of staff time; consequently there are fewer audit results reported in this Chapter.



## Public and Indian Housing Programs

There are approximately 3,300 public housing agencies (PHAs) which are established by local governments pursuant to state enabling legislation, and which receive financial assistance from HUD. HUD provides both project-based and tenant-based housing assistance to PHAs, in addition to homeownership and other grant assistance. HUD also provides assistance directly to PHAs' resident organizations to encourage increased resident management of public housing developments and to promote the formation and development of resident management entities and resident skills. Programs administered by PHAs are designed to enable low-income families, the elderly, and persons with disabilities to obtain and reside in housing that is safe, decent, sanitary, and in good repair.

The two major programs administered by PHAs include the Public Housing Program, encompassing about 1.32 million project-based assisted public housing units, and the Section 8 Housing Choice Voucher Program, encompassing about 1.43 million tenant-based assisted housing units. Public housing is considered PHA owned housing. On the other hand, PHAs serve as Contract Administrators for HUD in administering Section 8 housing. Under the Section 8 Housing Choice Voucher Program, eligible families are provided housing vouchers which enable them to lease housing in the private market as long as the housing meets the requirements of the program. PHAs also receive capital and operating assistance from HUD to develop, maintain, and operate their public housing units, and receive categorical grant assistance for the revitalization of their public housing (HOPE VI Program) and to enable them to address drug related and violent crime in and around their public housing developments (Public Housing Drug Elimination Program). HUD provides its housing and other assistance to PHAs pursuant to Annual Contributions Contracts and grant agreements, and with few exceptions, primarily under the authority of the United States Housing Act of 1937, as amended.

HUD assesses the performance of PHAs annually through the Public Housing Management Assessment Program (PHMAP). However, during Fiscal Year 2000, HUD intends to phase in a new PHA assessment system to replace PHMAP called the Public Housing Assessment System (PHAS). PHAS is designed to assess PHAs under four performance areas: (1) the physical condition of the PHA's units and developments; (2) the PHA's financial condition; (3) the PHA's management operations; and (4) the PHA's resident services and resident satisfaction. Under this new system, HUD proposes to issue final overall PHAS scores for PHAs with fiscal years ending after December 31, 1999. PHAs classified as "troubled" under PHAS are required to be referred by HUD's Real Estate Assessment Center to one of two Troubled Agency Recovery Centers (TARCs) for monitoring purposes. Troubled PHAs, generally, have 2 years to improve their performance to either that of standard- or high-performer or else they risk being referred by the TARC to the Departmental Enforcement Center, at which time they may be placed in judicial or administrative receivership.

HUD also provides housing assistance under annual block grants to eligible Indian tribes or their tribally designated housing entities and Alaska Native Villages pursuant to the Native American Housing Assistance and Self-Determi-

nation Act of 1996. HUD allocates its block grant assistance under a needs-based formula. Tribes are required to submit for HUD's review and approval both a 1-year and a 5-year Indian housing plan containing the goals, missions, and methodologies applicable to their performance objectives for the grant period. The block grant assistance can be used for a variety of eligible affordable housing activities. HUD also provides Indian Tribes and Alaska Native Villages funding under a special Community Development Block Grant Program set aside for such entities.

During this reporting period, we performed reviews of HUD's Tenant Opportunity Program (TOP), a HOPE I homeownership implementation grant, and the progress of a PHA in receivership. We also reviewed the general administration of various public and Indian housing authorities.

## TOP

At the request of HUD's Office of Public Housing, the OIG reviewed four TOP grantees and found that the four resident associations of the **Atlanta, GA** Housing Authority developments did not properly administer their TOP grants. Specifically, the grantees did not maintain a financial management system to provide adequate control over their grant funds or maintain a complete set of books and records. In addition, the grantees did not follow or document adherence to proper procurement procedures in awarding contracts for consulting services and training. Overall, the grantees were not making substantial progress toward accomplishing the tasks cited in their work plans. We attribute these conditions to HUD's not properly monitoring the grantees and the ineffective monitoring and technical assistance performed by the Atlanta Housing Authority.

A February 1997 OIG audit of TOP grantees of Atlanta Housing Authority developments disclosed that the grantees lacked control over grant funds, had inadequate books and records, and lacked basic knowledge of the TOP. In April 1998, the Office of Public Housing requested forgiveness of the ineligible and unsupported costs cited in the audit. An OIG corrective action verification review of the grantees determined that they still lacked the capacity to administer their grants. We recommended terminating the TOP grants as a condition of forgiving the costs. As of March 1999, the Office of Public Housing reported the recommendations concerning the ineligible and unsupported costs as open. The Office of Public Housing also reported that HUD had contracted to provide technical assistance to the grantees and to assess their capacity to continue administering their grants.

The current OIG audit recommended that HUD recover the outstanding grant amounts, terminate all four TOP grants, and monitor and provide adequate technical assistance and training to any remaining TOP grantees. (Report No. 99-AT-201-1810)

An OIG review disclosed that the Housing Authority of the **City of Asheville, NC's** resident council did not obtain an audit of the activities of its \$100,000 TOP grant. As a result, HUD did not have the assurance that the council administered its grant according to program requirements. In addition, the council did not have effective controls over disbursements; the council required the signature of only one officer on disbursement checks.

The audit recommended that HUD require the council to obtain an audit of the TOP grant funds and provide a copy to HUD or return the money set aside for

this purpose, and follow its policy for the signature of two persons on checks. (Report No. 99-AT-204-1805)

## HOPE I

A significant portion of HUD's HOPE I implementation grant award of \$717,000 to the **Westbrook, ME** Housing Authority was not needed to accomplish the goal of homeownership. An OIG audit found that the Authority is nearing completion of its homeownership program and has sold over 75 percent of the units; however, it has used only 13 percent (\$92,000) of grant funds toward accomplishing this goal. The remaining grant funds (\$625,000 plus nearly \$52,000 of earned interest) were not used for the intended purposes of assistance for operating costs, rehabilitation costs, and replacement reserve. The audit also found that the Authority did not use sale proceeds of \$420,000 to accomplish stated objectives in its grant application; that grant funds and sale proceeds were commingled with the low-income housing general fund; and that such funds were used for unauthorized and unrelated purposes, including funding non-federal assisted housing programs.

The audit recommended that HUD require the Authority to establish fiscal accountability and effective controls to assure that scarce federal funds are used efficiently, and to identify the HOPE I implementation grant program funds that were used for unauthorized and unrelated purposes and take appropriate actions to correct the situation. (Report No. 99-BO-202-1002)

## Receivership Progress

The **Chester, PA** Housing Authority (CHA) has been operating under court appointed receivership since 1994. An OIG review found that the receiver and his staff, and later the CHA staff hired by the receiver, have been instrumental in improving the CHA's operations. Based on HUD's PHMAP confirmatory review, the CHA has progressed from a troubled housing authority to a standard performing authority. In addition, the CHA's current staff has demonstrated that it has the capacity to administer the CHA's operations effectively, and living conditions for residents have significantly improved. Therefore, we believe that HUD, the receiver, and the CHA should establish a plan for terminating the receivership. The plan would identify CHA areas of operations that still need the receiver's attention, the steps to be taken to raise the CHA's performance to acceptable levels in those areas, and a timeframe for successfully fulfilling the plan. Upon completion of the plan's goals, we recommend that HUD petition the court to terminate the CHA receivership. Further, we believe HUD and the court should reevaluate the receiver's fee, which totals over \$761,000 per year, given the significant decline in the level of the receiver's resources and services directed to the CHA. CHA hires have replaced the temporary support staff the receiver brought to the CHA. The CHA now has a permanent executive director, deputy director, and directors of finance and other CHA departments. However, the receiver's fee for administering CHA operations has not been reduced accordingly. (Report No. PH-202-0801)

## General Program Administration

Based on resident complaints of substandard living conditions at the Tonomy Hill development, the OIG audited the Housing Authority of the **City of Newport, RI**. Our inspection of the property found that the Authority did not maintain the property in good repair and condition. An inspection of 26 units disclosed 174 maintenance deficiencies. We also found that the Authority has not

prepared vacated units for reoccupancy in a timely fashion. On January 31, 1999, 93 of the 498 units, or 19 percent, were vacant even though the Authority had a waiting list of 188 applicants. A majority of these units had been vacant from 3 months to over 1 year. In addition to a lack of housing for low-income families, these vacant units resulted in lost rental income of about \$705,000.

The Authority made a decision to limit expenditures for maintenance and vacant unit preparation in anticipation that a portion of the units would be renovated or demolished at some time in the future. Since February 1995, the Authority has been conducting studies to determine what should be done with the Tonomy Hill property. In May 1999, the Authority submitted an application for HOPE VI funds to demolish all of the units and replace them with 425 units of mixed-income housing. However, the Authority is in competition for limited HOPE VI funds, and there is no guarantee that their application will be approved. Therefore, the Authority needs to take action to eliminate the substandard living conditions that now exist and continue to prepare vacant units for occupancy.

The audit recommended that HUD require the Authority to: (1) comply with its Annual Contributions Contract to provide decent, safe, and sanitary housing; (2) develop a plan, in conjunction with HUD, that will bring the Tonomy Hill units into decent, safe, and sanitary condition; and (3) provide HUD a plan on corrective actions it will take to reduce the high vacancy rate should the HOPE VI application be rejected. If the Authority fails to implement the recommendations, HUD should impose administrative sanctions, including the removal of vacant units from the subsidy calculation. (Report No. 99-BO-202-1003)

Based on citizen complaints, the OIG audited the Housing Authority of the **City of Winston-Salem, NC**, and found several questionable expenditures. The Authority was neither timely nor effective in completing a major project to install air conditioning and heating equipment in 1,624 of the Authority's units. The Authority purchased the equipment between 1995 and 1997, but by February 1999 had installed it in only 446 apartments. The delays and changes in implementation of this project will result in about \$3 million of unnecessary costs to the Authority.

The audit also disclosed that the Authority: (1) did not comply with procurement requirements to ensure free and open competition for 3 of 7 procurements we tested, involving \$190,000 in costs; (2) did not have proper support of the eligibility of a \$10,000 payment to a local private school; and (3) paid travel costs and miscellaneous credit card charges of over \$20,000 which were not properly supported.

The audit recommended, among other things, that HUD require the Authority to submit a plan detailing the source of funds and method to be used in completing the air conditioning and heating project and submit periodic reports on its progress; obtain training for Authority staff responsible for procurement and travel; and provide documentation of how the payment to the school benefited the Authority's Drug Elimination Program and seek repayment if the payment is determined to be ineligible. (Report No. 99-AT-204-1806)

Following allegations of mismanagement, the OIG reviewed operations at the Northern Pueblos Housing Authority in **Santa Fe, NM**. The Authority has suffered and continues to suffer from serious administrative deficiencies which

affect the management and control of its housing operations. The Authority failed to follow its adopted procurement policies and procedures and violated federal requirements relating to bid solicitation and contract management. Specifically, contracts totaling \$1.3 million were executed without competition; procurements were not adequately planned; contractors were not required to adhere to the terms of their contracts; and effective payment controls were not adopted. As a result, procurements were made without the required competition, which could have served to lower costs; contracts were let on a piecemeal basis; work was completed in a shoddy manner or not completed at all; and contract overpayments totaling at least \$34,000 and questionable payments of at least \$122,000 were made. We attributed these problems to several factors, including lack of or inadequate procedures and controls and intentional disregard of existing procedures and federal requirements. Problems with accounting and cash controls were further exacerbated by the Authority's failed attempts to implement a computerized accounting and management control system costing over \$200,000.

The Authority has taken steps to strengthen its controls over cash and investments and to improve its procurement and contract management systems. However, problems continue to exist which place its housing programs at substantial risk of fraud, waste, or abuse. The audit recommended that the Authority refund money spent for ineligible expenses to its project accounts; resolve unsupported costs; and adopt and implement management controls to ensure that the deficiencies identified in the audit do not recur. (Report No. 99-SF-207-1803)

In response to a citizen's complaints, the OIG reviewed the activities of the Housing Authority of the **City of Charleston, SC**, related to selection and acquisition of four sites for new scattered site public housing developments. The Authority used \$288,000 of HUD funds to purchase and begin development of three properties without the required HUD authorization, and completed purchase agreements without negotiating the prices and before obtaining appraisals of the properties' value. Upon completion of our review, the Authority stated that the \$288,000 had been reimbursed to the Public Housing Program.

The Authority also failed to obtain HUD approval prior to executing an option to purchase a property for a fourth public housing development. The option price of \$85,000 was not fully supported and was possibly excessive. The Authority planned to amend the option to about double the size of the property and to increase the price to \$170,000.

The audit recommended that the Authority provide HUD with documentation of: (1) its actions in acquiring the four properties; (2) the acquisition and option prices; and (3) the reimbursement of public housing funds. HUD should also determine if the properties are eligible for HUD funding, and if they are eligible, the acquisition prices allowable for HUD funding. (Report No. 99-AT-204-1807)

While the **Irvington, NJ** Housing Authority effectively administered its Low-Rent Housing Program, an OIG audit disclosed areas of internal controls that needed improvement. For example, the Authority violated its annual contributions contract by not securing over \$819,000 in project funds that exceeded the Federal Deposit Insurance Corporation insurance limit; incurred nearly \$4,500 in ineligible costs and over \$69,000 in unsupported costs stemming from noncompliances with federal cost principles and travel policies; issued checks

amounting to over \$434,000 without all the required signatures; and did not comply with all procurement regulations.

The audit recommended that the Authority be required to take measures to safeguard all of its cash assets, amend its travel policy to incorporate necessary controls, determine the eligibility of unsupported costs, implement controls over disbursement procedures, and ensure that future procurement activities are adequately supervised. (Report No. 99-NY-202-1006)

At the request of HUD's Office of Public and Indian Housing in the Rocky Mountain District, the OIG reviewed the **Whitefish, MT** Housing Authority's administration of its housing programs. The review identified significant management control weaknesses in procedures relating to receipts and disbursements and the administration of the Comprehensive Improvement Assistance Program (CIAP). The deficiencies occurred because the prior executive director had full control over the Authority's operations, and set up written policies and procedures that were insufficient and incomplete. The board of commissioners also failed to provide effective oversight.

The former executive director resigned in November 1997. Shortly thereafter, the Mayor of Whitefish appointed a new board of commissioners. The executive director and the board are working together to organize and update Authority records, control expenditures, and improve living conditions. In addition, HUD's Office of Public and Indian Housing completed site visits to review CIAP grants and is working with the Authority to resolve certain issues relating to the grants. Public and Indian Housing is also providing technical assistance to the Authority.

The audit recommended that the Office of Public and Indian Housing continue to provide the executive director and the board any technical assistance necessary, and determine that the Authority has properly established and is complying with new policies and procedures once they have been developed. (Report No. 99-DE-202-1801)

In response to a citizen's complaint, the OIG reviewed operations of the Housing Authority of the **City of Asheville, NC**, as they relate to activities of the resident's council. The review found that the Authority paid ineligible monthly stipends of over \$33,000 to public housing residents as part of its Drug Elimination Program. A Notice of Funding Availability prohibits the payment of wages or salaries to residents for their participation in voluntary tenant patrols. The Authority also improperly loaned over \$44,000 in public housing funds to the resident's council when the council could no longer pay expenses it incurred mowing lawns under a contract with the Authority. The Authority then paid the resident's council \$70,000 a year for lawn mowing services that the council subcontracted to a third party for \$60,000.

The audit recommended that HUD determine whether the stipend payments are eligible, the Authority obtain reimbursement of the loan to the council and terminate its mowing contract with the council, and the Authority improve its management controls over its activities with the council. (Report No. 99-AT-204-1804)

An audit found that while the **Central Falls, RI** Housing Authority is in compliance with the requirements of its Family Self-Sufficiency Program, the chairman of the board of commissioners violated the conflict of interest provisions. The chairman is a Section 8 landlord and received over \$57,700 in housing assistance payments between 1993 and 1998. This violates the conflict of interest provisions inasmuch as the chairman never obtained a required waiver from HUD. The Authority also needs to improve the procedures used in its housing quality standards (HQS) inspection process and determinations of contract rent reasonableness. We found that defective paint was not always identified during HQS inspections. In addition, the Authority's current procedures for determining contract rent reasonableness use outdated data and are not administered in accordance with HUD requirements.

The audit recommended that the Authority provide evidence that ineligible housing assistance payments paid to the chairman have been repaid to the Section 8 Program, and that the chairman's involvement in the Section 8 Program has been terminated. HUD should instruct the Authority to institute administrative action against the chairman, if warranted. The Authority should also perform supervisory controls of HQS inspections, increase its focus on defective paint during HQS inspections, and document that it has updated its market survey of private unassisted units in the area. (Report No. 99-BO-203-1004)

## Multifamily Housing Programs

In addition to multifamily housing developments with HUD held or HUD insured mortgages, the Department owns multifamily projects acquired through defaulted mortgages, subsidizes rents for low-income households, finances the construction or rehabilitation of rental housing, and provides support services for the elderly and handicapped. In addition to Operation Safe Home equity skimming work during this period, the OIG reviewed security costs of property disposition properties, and Resident Homeownership Program and Technical Assistance Planning grants.

When HUD assumes control of a multifamily property, one of two HUD multifamily property disposition centers is responsible for controlling the costs of maintaining the property; one major category of costs is security. The purposes of the Resident Homeownership Program are to keep housing affordable to low-income families, minimize involuntary displacement of tenants, and facilitate the sale of housing to residents. The purposes of a Preservation Technical Assistance Planning grant are to establish a resident council, provide assistance in preparing and submitting an expression of interest and a bona fide offer to acquire the project, and prepare the transfer of physical assets package.

### Security Costs of Property Disposition Properties

Following a referral by HUD program staff, the OIG reviewed security costs incurred for HUD's multifamily property disposition properties and found that HUD had no assurance that \$38 million spent on security services was necessary or appropriate. Neither HUD nor its property management contractors had established a method to determine the level and type of security needed at the



## **Resident Homeownership Program/ Technical Assistance Planning**

properties. Instead of conducting security surveys or implementing other procedures to determine appropriate security for its properties, HUD relied on the property management contractor to determine security needs. However, the contractors did not have security analysts on their staffs to accurately determine the appropriate security needed, nor did they subcontract with experts to make the determination. In general, the contractors placed a large number of guards at the properties and left them there for an indeterminate period. During our review, when we brought this situation to the attention of HUD officials, they immediately began working on ways to improve the process.

The audit recommended that the Assistant Secretary for Housing-Federal Housing Commissioner assure that the Property Disposition Centers follow through on the actions they initiated to improve the process to determine the level and type of security needed at multifamily property disposition properties. (Report No. 99-KC-113-0001)

In response to a complaint received from some residents of West Park Place Residents Association for Preservation in **Chicago, IL**, the OIG audited the Resident Homeownership Program grant and Preservation Technical Assistance Planning grant awarded to the property. The audit disclosed that while Resident Homeownership Program grant costs incurred by the Association were eligible and properly supported, the Association did not effectively administer nor did HUD effectively monitor the \$2.7 million provided for rehabilitation work under the Resident Homeownership Program grant. As a result, there is no assurance that the grant will meet its intended objective of providing homeownership opportunities for residents with units that meet housing quality standards. Specifically, building roofs were not replaced or adequately repaired; deficient concrete work was not remedied in a timely manner; compliance with housing quality standards was not assured; the grant account was not reimbursed for rehabilitation upgrades paid for by residents; and rehabilitation work was not completed in a timely manner. We believe the problems resulted from a lack of communication and coordination between the Association, its contractors, and HUD.

The Residents Association spent only \$118,000 of \$125,000 in Preservation Technical Assistance Planning grant funds it received, overpaid a firm for legal services, and drew down grant funds based on cost estimates rather than on actual costs. As a result, grant funds received were not used for eligible grant activities and over \$10,000 should be returned to HUD.

The audit recommended that the Director, Chicago Multifamily Hub, assure that the Residents Association develops a plan for adequately repairing or replacing all building roofs; completes repairs to the project's electrical system resulting from deficient concrete work; ensures that all units meet HUD's housing quality standards prior to completing the sales of units to residents; transfers all funds collected from residents for rehabilitation work upgrades to the rehabilitation escrow account; ensures that all remaining contractual issues are resolved and expeditiously closes out the contract with the general contractor; and repays HUD for the Technical Assistance Planning grant funds not expended for eligible grant purposes. (Report No. 99-CH-213-1006)

# Community Planning and Development Programs

The Office of Community Planning and Development (CPD) administers programs that provide financial and technical assistance to states and communities for activities such as community development, housing rehabilitation, homeless shelters, and economic and job development. Grantees are responsible for planning and funding eligible activities, often through subrecipients. During this reporting period, the OIG reviewed a grantee's administration of the Community Development Block Grant (CDBG) and HOME Investment Partnerships Programs, and a county's administration of its Community Housing Improvement Program.

The CDBG Program provides annual grants to entitled communities to carry out a wide range of activities directed toward neighborhood revitalization, economic development, and improved facilities and services. The purpose of the HOME Program is to expand the supply of decent, safe, sanitary, and affordable housing, primarily rental housing for low- and very low-income families through eligible forms of assistance, such as loans, loan guarantees, equity investments, interest subsidies, and other assistance approved by HUD. Grantees participating in the Community Housing Improvement Program, established to provide housing rehabilitation assistance to low- and moderate-income individuals, receive funding from both the HOME and CDBG Programs.

## **CDBG and Home Investment Partnerships Programs**

At the request of the HUD Los Angeles Area Office, Office of CPD, the OIG reviewed the **City of Lynwood, CA's** (grantee) CDBG and HOME Investment Partnerships Programs. The review found that the grantee was unable to demonstrate compliance with CDBG requirements to support the number of jobs for low- and moderate-income persons created or retained by a subgrantee, and to document future benefits accruing to its residents from training of businesses located outside of the city limits. These problems occurred because the grantee did not: (1) establish needed policies and procedures for CDBG Program and subrecipient monitoring requirements; (2) provide CDBG training to staff responsible for the oversight and administration of CDBG funded activities; and (3) include task and recordkeeping requirements in its subgrantee agreements. As a result, between October 1994 and June 1998, the grantee paid the Lynwood Entrepreneur Development Academy (LEDA) and Lynwood Business Institute (LBI), two subgrantees, a total of nearly \$731,000 in CDBG funds for expenses that may not have been used to achieve the stated national objective and may not have complied with CDBG funding restrictions.

The grantee did not use its HOME funds timely as required by regulations. For FYs 1993 through 1998, the grantee spent only \$1.3 million of its total authorized HOME funds of \$3.2 million. The grantee had made no expenditures from its HOME grant funds awarded for FYs 1996 through 1998. This was largely due to the grantee's lack of adequate management controls and training provided to its staff who were responsible for the oversight and administration of the HOME Program. As a result, the grantee had not fulfilled its responsibility to expand the supply of housing to low- and very low-income families in its jurisdiction and could lose unexpended HOME funds, which are subject to HUD's recapture rules.

The audit recommended that HUD's Los Angeles Area Office evaluate the adequacy of the grantee's internal policies and procedures to ensure compliance with HUD's rules and regulations, assess and provide training needed by administrative staff and subrecipients, and require the grantee to submit internal operating procedures to ensure that subgrantee agreements include applicable requirements and monitoring is conducted annually. The grantee should also provide documentation evidencing the eligibility of the \$731,000 paid to LEDA and LBI and repay from non-federal funds any amount that it is unable to support. In addition, HUD should recapture \$111,000 of the grantee's HOME funds unless a waiver justifying a time extension to commit the funds is submitted and approved by HUD. (Report No. 99-SF-241-1003)

Although the Community Development Agency of the **City of St. Louis, MO**, (grantee) and its subrecipients did a good job of managing the housing programs we reviewed, an OIG audit found that the grantee's economic development programs did not always comply with program requirements, laws, and regulations. The grantee contracted with a subrecipient, the St. Louis Development Corporation, to administer economic development activities. Neither the grantee nor the subrecipient could demonstrate compliance with CDBG Program requirements, nor could they support the number of low- and moderate-income jobs created or retained as a result of programs conducted by assisted economic development activities. One of 16 activities examined that had a \$730,000 grant did not use the funds for eligible purposes. Additionally, 9 other assisted projects, with grants/loans totaling \$1.7 million, did not have adequate documentation to show that the use of funds was for eligible purposes. We attributed this problem to inadequate monitoring by the grantee. We also believe the subrecipients placed more emphasis on serving the assisted businesses rather than benefiting low- and moderate-income persons.

The audit recommended that HUD assure that the Community Development Agency verifies that all economic development participants have documentation to support their progress in job creation/retention for low- and moderate-income persons according to executed agreements with the participants. We also recommended that the Agency repay HUD the amount of the grants and/or loans where economic development participants cannot support the jobs that should have been created or retained under the terms of their subrecipient agreements. (Report No. 99-KC-244-1002)

## **Community Housing Improvement Program**

Following a citizen's complaint made to the Congress, the OIG reviewed Fairfield County's Community Housing Improvement Program in **Lancaster, OH**. Our review found that Fairfield County inappropriately used \$169,000 of HUD funds to provide housing rehabilitation assistance that was not in accordance with HUD's regulations, the State of Ohio's requirements, and/or the County's program policies and guidelines. The inappropriate disbursements included payments for housing rehabilitation work that was improperly performed or not provided, or assistance paid for households that did not qualify as low-income. The review also disclosed that the County and/or its housing inspector incorrectly certified that the housing rehabilitation services provided for seven houses met the State's Residential Rehabilitation Standards when they did not, failed to follow HUD's regulation or the State's requirements for full and

open competition, and did not ensure that its contracting policies met HUD's requirements for the award of fixed-price or cost-reimbursement type contracts. Since the County awarded housing rehabilitation contracts without full and open competition, we questioned the County's use of over \$159,000 in HUD funds provided to 14 households.

The audit recommended that the CPD Director, Ohio State Office, in conjunction with officials from the State of Ohio, assures that Fairfield County establishes procedures and controls to ensure that Community Housing Improvement Program contracts are awarded in a manner that provides full and open competition, revises policies and guidelines to ensure they meet HUD's regulation regarding the issuance of Requests for Proposals for fixed-price or cost-reimbursement type contracts, provides adequate documentation to support the reasonableness of the costs in question for housing rehabilitation assistance or reimburse the program from non-federal funds, and establishes procedures and controls to ensure that assisted houses meet the State's Residential Rehabilitation Standards after receiving assistance. (Report No. 99-CH-255-1803)

## Single Family Housing Programs

Single Family Housing Programs provide mortgage insurance that enables individuals to finance the purchase, rehabilitation, and/or construction of a home. During this reporting period, we reviewed lender activities.

### Lender Activities

Alliance Mortgage Banking Corporation in **Rochester, NY**, neither properly administered all Section 203(k) Program rehabilitation funds nor adhered to prudent lending practices when processing HUD/FHA Section 203(k) loans. An OIG review of 22 HUD/FHA insured Section 203(k) loans that were originated by Alliance disclosed that Alliance did not ensure that a borrower was competent to perform rehabilitation work, a borrower was only reimbursed for the actual cost of the rehabilitation work, rehabilitation repairs were complete, costs were eligible before releasing contingency rehabilitation funds to a borrower, or controls over the accounting of rehabilitation escrow funds were adequate. We believe that Alliance's failure to follow Section 203(k) requirements was due to lack of management oversight. As a result, HUD/FHA's risk of potential losses on insured loans was greatly increased.

Our review also disclosed that Alliance underwrote at least 12 of the loans in our sample without ensuring that the borrower had sufficient funds to close the loans. The borrower used rehabilitation funds from other Section 203(k) loans to close at least nine of the loans in our sample. We attribute this deficiency to the fact that Alliance's staff did not ensure that the loans were processed in accordance with HUD/FHA requirements. At the completion of our field work, all 12 loans with mortgages totaling over \$590,000 were in default.

The audit recommended that Alliance be referred to HUD's Mortgagee Review Board and that appropriate administrative sanctions be taken. (Report No. 99-NY-221-1007)

In response to a confidential complaint, the OIG performed a limited review of lender activities specific to FHA insurance for single family Alaskan homebuyers. The complainant alleged that a large group of real estate agents in the **Anchorage, AK** area were exerting pressure on single family direct endorsement lenders to select certain appraisers. The complainant further alleged that real estate agents would not give their business to lenders that refused to allow them to select the appraisers, putting those lenders at a competitive disadvantage. We found that the complainant's allegation was credible in that lenders were selecting appraisers recommended by real estate agents. While HUD regulations require lenders to select and be responsible for the work of single family property appraisers, the regulations do not prohibit lenders from selecting appraisers recommended by real estate agents. However, in our opinion, lenders acquiescing to influence from real estate agents in the selection of appraisers calls into question the appraiser selection process. HUD requires lenders to exercise due diligence in choosing only the best qualified and knowledgeable appraisers. However, HUD has little assurance that lenders are exercising due diligence in the selection of appraisers if lenders are being pressured to select certain appraisers.

The audit recommended that HUD remind direct endorsement lenders that they are responsible and accountable for selecting appraisers and ordering the appraisal report on single family properties. This responsibility must be taken seriously and must not be given to anyone else. Also, if a lender can demonstrate that undue pressure from any individual or entity involved in the FHA insurance program caused the lender's business to suffer by following FHA rules, HUD should consider appropriate disciplinary action against the responsible individuals or entities. (Report No. 99-SE-121-0802)

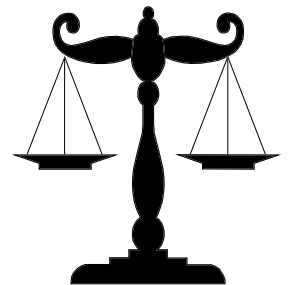
# Chapter 5

## Investigations

In addition to its Operation Safe Home responsibilities, the Office of Investigation pursues other allegations of irregularities or abuses in HUD's programs and activities, as well as other potential violations of law or misconduct on the part of HUD employees, participants, and beneficiaries. During this reporting period, investigative efforts, apart from Operation Safe Home, resulted in cash recoveries of \$307,642, court ordered restitution of \$3,564,678, and civil judgments of \$235,442, while fines levied exceeded \$650,000. In addition, 93 persons were indicted, 36 persons were convicted, and 35 years of prison sentences were imposed as a result of these investigative operations.

Some of the more significant investigation results during this reporting period include the following:

- An individual charged with single family equity skimming, money laundering, bankruptcy fraud, and racketeering, was sentenced to 78 months in prison, fined \$15,000, and ordered to pay \$571,000 in restitution.
- Owners of a lending company that provided Title I FHA insured mortgages for mobile home loans were each sentenced to 87 months confinement and 5 years supervised release, and ordered to pay \$500,000 to HUD and \$500,000 to the Government National Mortgage Association.
- Two former co-directors of a nonprofit HUD grantee were sentenced for their parts in a scheme in which they embezzled more than \$660,000 in grant funds.
- An individual was sentenced to 51 months in prison for making false statements to HUD in an application for a \$5.4 million HUD insured mortgage.



# Single Family Housing Programs

Single Family Housing Programs provide mortgage insurance that enables individuals to finance the purchase, rehabilitation, and/or construction of a home. During this reporting period, OIG investigations uncovered single family equity skimming and instances of wrongdoing by mortgagee personnel and real estate brokers in the origination of single family and Title I home improvement loans.

In **Bay Harbor Islands, FL**, Joseph Travers, previously charged on 59 counts of single family equity skimming, money laundering, bankruptcy fraud, mail fraud, and racketeering, was sentenced to 78 months in prison and 36 months supervised release, fined \$15,000, and ordered to pay \$571,050 in restitution, \$372,166 to HUD and \$198,884 to the Department of Veterans Affairs (DVA). Travers fraudulently assumed 64 FHA insured and DVA guaranteed properties using more than 200 fictitious identities. He received over \$30,000 per month in rental income from the properties, but failed to make any mortgage payments, thus allowing the properties to go into default. Travers devised an elaborate scheme of assuming FHA and DVA properties, and, using over 30 drop boxes and a telephone relaying system to rent the properties and collect the rents, kept his identity and location unknown. By using more than one alias, the drop boxes, and the telephone system, he was able to hide the scheme for several years. The loss to HUD was over \$1.8 million and the loss to the DVA was \$200,000. The investigation also disclosed that part of the money from the scheme was laundered through the purchase of real estate in Bay Harbor valued at over \$1 million. Travers used fictitious names and corporations so that this property would be difficult to trace back to him. This was a joint investigation by the HUD and DVA OIGs.

Two individuals in **Los Angeles, CA**, were arrested by FBI and OIG Agents for mail fraud violations stemming from a single family equity skimming scheme. As part of the scheme, the individuals purchased multiple unit properties under the names of strawbuyers. Fraudulent real estate appraisals inflated the value of the properties, which were then sold to other strawbuyers. Part of the money from the mortgage loans was used to complete the first purchase. The difference between the first and second sales was the arrested individuals' profit. It is estimated that the arrested individuals funded approximately 125 FHA loans through Allstate Mortgage Company. Last year, the former president of Allstate Mortgage was convicted of loan fraud. The total amount of fraudulent loans obtained by the arrested individuals was \$31,703,166.

As a result of a joint FBI/OIG investigation in **Norfolk, VA**, several individuals were sentenced, indicted, or pled guilty during this reporting period. James Saucedo, a former officer of several real estate speculation companies that assisted investors in obtaining fraudulent HUD insured loans, was sentenced to 5 years imprisonment and 6 years supervised release, and ordered to pay \$80,000 in restitution to HUD. Saucedo pled guilty to money laundering and conspiring to make false statements to HUD, and previously signed a forfeiture agreement for

\$2.3 million with the government. Saucedo was initially sentenced to 8-1/2 years imprisonment, but his sentence was reduced by the court due to his cooperation with this investigation, which has led to 2 additional guilty pleas. The investigation has identified approximately 200 fraudulent loans which Saucedo and his associates helped investors obtain between 1992 and 1996. Most of these loans were insured by HUD under the Section 203(k) Rehabilitation Home Mortgage Insurance Program and subsequently went into default.

Sandra Van Nocker, the former bookkeeper for a real estate speculation company and wife of one of its officers, was sentenced to 5 years probation and ordered to pay \$25,000 in restitution to HUD. Van Nocker pled guilty to conspiring to defraud HUD by submitting false employment information on behalf of a buyer of one of her employer's properties, and by falsely claiming to have provided money to a limited partnership which purchased properties from her employer.

John Beaton, a former title company attorney, pled guilty to three counts of making false statements to HUD. Beaton admitted that while he was working for two different title companies, he conducted numerous property closings on behalf of MSRV Development, a real estate speculation company, and falsified settlement statements to reflect that buyers of properties from MSRV paid their own down payments when in fact the down payments were paid by MSRV. Sentencing is scheduled for January 2000.

Four former officers of various real estate investment companies and a real estate agent were indicted by a federal grand jury on a total of 42 counts of wire fraud, bank fraud, conspiracy, making false statements to HUD, and money laundering. The indictment charges that the officers sold properties owned by their companies, including MSRV Development, to investors who fraudulently obtained HUD insured mortgages; the fraud was orchestrated by the defendants. Schemes included the use of false verifications of employment, income, and credit, bogus tax returns, cash "incentive" payments to buyers, the unreported payment of buyers' down payments, and the use of sham limited partnerships to purchase properties. Three of the officers were also charged with laundering over \$6 million in fraudulent loan proceeds to promote additional property transactions and to finance lavish lifestyles, including the payment of \$500,000 in credit card bills over a 2-year period. The real estate agent, who purchased over 40 properties, mostly with mortgages insured under the Section 203(k) Program, was charged with submitting false documents to obtain mortgages, receiving unreported payments to buy properties, and falsifying the source of his down payments. He was also charged with assisting MSRV's officers in their money laundering scheme by returning to MSRV bogus real estate commissions he received from a multiple property transaction involving fraudulent loans.

Angelo Ales, an organized crime figure in **New York, NY**, who is alleged to be a "Made Man" in the Bonnano crime family, was sentenced to 9 months in prison and 3 years supervised release for fraudulently obtaining a HUD insured mortgage. Ales was previously charged and pled guilty to making false statements to HUD. After he was released from federal prison following a 3-year sentence for bank and credit card fraud, he created a new credit history using a false social security number. Ales then obtained multiple credit cards, leased cars, and purchased a house financed with a \$131,000 HUD insured mortgage,



and applied for a \$15,000 HUD insured home improvement loan. In applying for the mortgage and home improvement loan, he provided false employment, income, and down payment information to HUD. He also received social security disability benefits while employed, and continued to receive benefits while in prison for the earlier crimes because he denied to the Social Security Administration that he had ever been in prison.

This investigation was conducted by the HUD and Social Security Administration OIGs and the Postal Inspection Service.

Following a joint FBI/OIG investigation, 2 brothers in **Las Vegas, NV**, were charged in an 18-count indictment for their participation in a scheme to defraud HUD and lenders by obtaining fraudulent FHA insured mortgages and HUD Title I home improvement loans. The charges included conspiracy, making false statements, submitting false loan documents, money laundering, mail fraud, and wire fraud. The defendants used strawbuyers to act as the purchasers and loan applicants.

In one case, the defendants had a strawbuyer assume the identity of another individual, known to the defendants, without that person's knowledge. In another case, the individual acting as the strawbuyer died after submitting the loan application to purchase a property. The closing took place after the defendants sent another individual, posing as the deceased, to sign the closing documents. The defendants provided the strawbuyers with fraudulent W-2 forms and pay statements using businesses they operated in the Las Vegas area. Bank accounts in the names of the strawbuyers were set up to launder the proceeds from the second and third loans. Most of the loans resulted in first payment defaults. In total, the defendants submitted fraudulent documentation in support of 13 loan applications on 7 properties. The total value of the loans is approximately \$1 million.

In addition to the fraud scheme, in April 1999, one of the defendants was indicted on one count for failure to appear in court after his arrest by the Secret Service in 1994 in a counterfeiting investigation. The defendant fled the country after his arrest and returned under an assumed name. He was arrested last year by the OIG and FBI on the outstanding warrant.

Raymond Patton, a former Title I contractor in **Houston, TX**, was sentenced to 24 years in prison for manufacturing child pornography and obstruction of justice. The sentencing was the result of an investigation during which a federal search warrant was executed by the FBI and OIG. During execution of the warrant, while they were searching for Title I financial records, Agents uncovered large quantities of child pornography mixed with HUD Title I loan files. Patton also threatened witnesses and caused the destruction of evidence. As part of a plea agreement, the government decided not to pursue HUD fraud charges and allowed Patton to pled guilty to the other charges.

John Logan and Alan Michael Laws, owners of Logan-Laws Financial Corporation (LLFC), a lending company in **Johnson City, TN**, which provided Title I FHA insured mortgages for mobile home loans, were each sentenced to 87 months confinement and 5 years supervised release, and ordered to pay \$500,000 to HUD and \$500,000 to the Government National Mortgage Associa-

tion (GNMA). LLFC conspired to provide loans to individuals who did not qualify for the loans. The loans were placed in GNMA securities pools. LLFC then issued and sold the securities, but retained responsibility for servicing the loans. LLFC then submitted false information to GNMA to make it appear that the loans were current, so that LLFC could continue to issue GNMA securities. The investigation was conducted by the FBI with OIG assistance.

**Houston, TX** investor Iva L. Mueller Hunter entered into a plea agreement with the U.S. Attorney's Office for submitting false statements to HUD. The plea agreement was the result of an OIG investigation which disclosed that Hunter was securing FHA Title I loans based on false information. Hunter admitted to securing 17 Title I loans at an approximate value of \$319,000. No date has been set for sentencing.

Charles Wilkins, a nurse at a Veterans Administration hospital in **Bellville, TX**, was sentenced on a deferred adjudication judgment entered by the District Attorney's Office. Wilkins received 5 years probation, 160 hours of community service, and restitution of \$15,000. The sentencing was the result of an OIG investigation which disclosed that Wilkins falsely assumed the identity of a veteran who was a patient at the hospital where he worked. Wilkins used this false identity to acquire a Title I home improvement loan on a nonexistent home and used the proceeds to purchase a used ambulance for a business that he planned to operate.

In **Freedom, PA**, Hershel and Linda Smith signed a Settlement Agreement and Release with the Department of Justice, acting on behalf of HUD, and paid an \$8,000 civil penalty under the False Claims Act. The Smiths purchased two HUD owned properties, one of which was insured through FHA, falsifying their status as owner/occupants. They claimed that they originally purchased the properties for their children; however, none of the Smiths ever lived in the properties. The Smiths have since entered into pending agreements to sell both properties to third parties via private sales. Though there was no dollar loss to HUD, the integrity of HUD's Real Estate Owned Program was compromised through the falsification of documents. In addition, the HUD owned properties and FHA insurance failed to reach their targeted clientele.

This matter was the first to be settled in the Western District of Pennsylvania through the "fast track" approach wherein the Department of Justice attempts to settle matters before litigation is initiated in district court, thereby saving both the defendants and the Federal Government the burden and expense of litigation. This was an OIG investigation.

An employee of the Long Island, NY Railroad Company was arrested at his residence in **Patchogue, NY**, by an OIG Special Agent and a U.S. Postal Inspector on charges of submitting false statements to the government. The employee, who owns three properties in Suffolk County, NY, falsely certified to HUD that he was a first-time homebuyer and that the HUD property he was purchasing was to be his primary residence. Shortly after purchasing the property from HUD, the individual rented out the property for \$1,300 per month to a social service organization, and never used the property as his primary residence. The Office

of Inspector General at the individual's place of employment was also notified of the arrest for possible disciplinary action.

A **City of New Orleans, LA** police officer and his wife were indicted by a federal grand jury on three counts of false statements and conspiracy. The indictment was the result of an OIG investigation that disclosed that the individuals falsified documents in order to purchase a home under the HUD "Officer Next Door Program." The program allows police officers to purchase residential properties at a reduced rate of 50 percent below market value with the understanding that the officers will occupy the property as the primary residence for at least 3 years. The defendants failed to occupy the property as their primary residence, and instead, rented the residence to a fellow police officer. The fraud caused the government to suffer a \$19,000 loss. No further judicial proceedings have been scheduled at this time.

Carl Jake Sandberg, owner of a real estate service in **Houston, TX**, pled guilty to 2 counts of a 25-count indictment on charges of submitting false statements. The plea resulted from an investigation by the HUD and Department of Veterans Affairs OIGs that included the execution of a federal search warrant on Sandberg's real estate office in connection with the sale of repossessed single family properties. The loss to the government is estimated at \$97,000. Sentencing is scheduled for December 1999.

## Community Planning and Development Programs

The Office of Community Planning and Development (CPD) administers programs that provide financial and technical assistance to states and communities for activities such as community development, housing rehabilitation, homeless shelters, and economic and job development. Grantees are responsible for planning and funding eligible activities, often through subrecipients. OIG investigations of these programs disclosed cases of embezzlement, theft, conspiracy, false statements, mail fraud, and money laundering.

Rabbi Elimelech Naiman and Paul Chernick, former co-directors of the Council for Jewish Organizations of Boro Park (COJO), a nonprofit HUD grantee in **Brooklyn, NY**, were sentenced for their parts in an embezzlement scheme. Naiman received 2 years in prison and 2 years supervised release and was fined \$25,000. Chernick was sentenced to 33 months in prison, 2 years supervised release, restitution of \$18,000, and a \$30,000 fine. Naiman was previously convicted for and Chernick previously pled guilty to embezzling more than \$660,000 in grant funds received from HUD and other federal and state agencies. COJO received \$4.6 million in special purpose grant funds from HUD for the purpose of creating and administering business outreach centers in targeted neighborhoods. Some of the diverted funds were used to pay a politician's personal and political expenses, including trips to Europe. This was a joint investigation by the OIG, IRS, U.S. Attorney's Office, Postal Inspection Service, and New York City Department of Investigation.

In **Youngstown, OH**, David and Tracy Jones, husband and wife, were sentenced following their pleas of guilty to state felony counts of theft, theft by deception, and tampering with records in connection with fraudulently receiving Community Development Block Grant (CDBG) funds. David Jones was sentenced to 4 to 15 years in state prison, and restitution of \$206,000 to the City of Youngstown and \$68,000 to the Social Security Administration. Tracy Jones was sentenced to 2 years of community control with the first 90 days served as home detention with electronic monitoring. David Jones, doing business as Jones Janitorial and Carpet Cleaning Services, Inc., previously pled guilty to two state counts of theft and tampering with records. One of the two theft charges related to a payroll padding scheme wherein Jones falsified documents and stole \$206,000 from the City's Minority Business Enterprise (MBE) Program, which is funded through the CDBG Program. The second theft count dealt with approximately \$68,000 in social security disability benefits Jones fraudulently received over a period of years. Tracy Jones pled guilty to theft of MBE funds the week prior to her husband's plea.

This investigation was conducted by the Mahoning County Fraud Task Force which is made up of the FBI, HUD and Social Security Administration OIGs, the Mahoning County Sheriff's Office, the IRS Criminal Investigation Division, and the Ohio Ethics Commission.

In **Erie, PA**, Dorothy Lockett, former executive director of the Booker T. Washington Center (BTWC), Patti Ann Clarke, former controller, Lillie Williams, a former program aide, and Byron Leftwich, a companion of Lockett, were sentenced in U.S. District Court for their role in conspiring to embezzle federal funds from the BTWC, a nonprofit social service agency which provides outreach programs to the poorest segments of Erie's population. The defendants used credit cards and store charge accounts issued to the BTWC to purchase items and services for their own use, such as groceries, liquor, airline tickets, car repairs, gasoline, and home remodeling. The scheme deprived the BTWC of more than \$62,000 in operating subsidies, funded in part through HUD's CDBG Program. Lockett was sentenced to 8 months in jail, 4 months home detention, and 2 years probation, ordered to pay \$18,069 in restitution to BTWC, and fined \$2,400. Clarke was sentenced to 3 months in jail and 3 years probation, and ordered to pay \$2,346 in restitution to BTWC. Williams received 6 months in jail, 3 months home detention, and 2 years probation, and was ordered to pay \$33,292 in restitution to BTWC. Leftwich was sentenced to 2 months home detention and 3 years probation, and ordered to pay \$5,100 in restitution to BTWC.

The sentencings resulted from a 2-year investigation by the OIG Offices of Investigation and Audit and the FBI that led to two separate investigations. These investigations yielded the conviction of 6 individuals, 45 months of jail sentences, 9 months of home detention, 176 months of probation, restitution of more than \$92,500, and fines totaling \$2,400.

Marilyn House-MaGahee and Douglas McGuire, former **City of Memphis, TN** Housing and Community Development employees, were sentenced in U.S. District Court. House-MaGahee received 33 months incarceration to be followed by 3 years supervised release, and was ordered to pay \$122,882 in restitution and an \$800 special assessment fee. McGuire received 70 months incarceration to be

followed by 3 years supervised release, and was ordered to pay \$155,306 in restitution and a \$1,350 special assessment fee. House-MaGahee was previously convicted on 1 count of conspiracy and 15 counts of embezzlement, and McGuire was convicted on 1 count of conspiracy, 15 counts of embezzlement, and 10 counts of money laundering. The crimes were committed while House-MaGahee was the supervisor of the Rebuild Program, a HUD funded program administered through the City of Memphis Housing and Community Development Program, and McGuire was working as a contractor for the Rebuild Program. The 2-year joint investigation by the FBI, OIG, and IRS Criminal Investigation Division disclosed that the individuals embezzled over \$350,000 in CDBG funds earmarked for the Rebuild Program by House-MaGahee's falsifying progress reports on work completed and by authorizing draws to McGuire's company for work never performed.

A former employee of the **City of New Orleans, LA** Division of Housing was indicted on one count of theft of government funds. The indictment resulted from an investigation conducted by the OIG Offices of Audit and Investigation. The investigation found that the former employee allegedly falsified government applications and altered his pay statement to allow him to qualify for a Residential Owner Occupied Rehabilitation (ROOR) deferred loan. The ROOR Program is funded by HUD and the City of New Orleans. The loss to the government is estimated at \$52,000. No further proceedings have been scheduled at this time.

A federal grand jury in **Sharon, PA**, returned a two-count indictment against a former City of Sharon wage tax clerk for making false statements to the City's Department of Community Development (DCD), a recipient of HUD rehabilitation funds. The individual allegedly fraudulently declared to the DCD that her sister and her sister's children resided with her. She subsequently admitted to OIG that her sister did not reside with her during the time period in question, and that she not only completed her sister's tax return with incorrect information, but signed it as well. The false statements enabled her to be approved for a \$15,000 rehabilitation loan to which she was not entitled; she subsequently defaulted on the loan. This was an OIG investigation.

Three former employees of the South Plains Aids Resource Center in **Lubbock, TX**, were indicted on 76 counts of false statements to HUD, mail fraud, false statements to the government, false statements to federal agencies, social security fraud, money laundering, and conspiracy. The indictment was the result of a joint investigation by the FBI, OIG, IRS, Social Security Administration, and the Texas Department of Health. The investigation disclosed that the former employees were allegedly "double dipping" in that they were collecting rent from tenants who were receiving funds from the Social Security Administration and other agencies while at the same time collecting federal housing benefits for the same tenants. If convicted, the three collectively face a total of 1,000 years in prison and a possible \$32 million in fines. The total loss is unknown at this time; no further judicial dates have been scheduled.

# Multifamily Housing Programs

In addition to multifamily housing developments with HUD held or HUD insured mortgages, the Department owns multifamily projects acquired through defaulted mortgages, subsidizes rents for low-income households, finances the construction or rehabilitation of rental housing, and provides support services for the elderly and handicapped. During this reporting period, OIG investigations uncovered tax evasion, false statements, conspiracy, and money laundering. These cases are over and above those conducted as part of our Operation Safe Home multifamily equity skimming efforts.

In **Tampa, FL**, the former president of the National Baptist Convention, the Reverend Henry Lyons, was sentenced to 51 months incarceration and 5 years supervised release on federal charges that will run concurrently with the sentence he received from the State of Florida. A real estate agent was also indicted in this same case. Earlier this year, Lyons pled guilty to 7 federal charges including tax evasion, bank fraud, and making false statements to HUD in an application for a \$5.4 million HUD insured mortgage for Bethel Village, a failed project to build an assisted living retirement development, which the agent and Lyons spearheaded between 1995 and 1997. In addition, Lyons was ordered to pay \$5 million in restitution to the firms that he defrauded.

The real estate agent, who served as a deacon under the Reverend Lyons and as secretary and treasurer of the Bethel Village project, was indicted by a federal grand jury on 10 counts of conspiracy, wire fraud, and lying to federal Agents. The agent was charged with conspiring with Lyons to dupe bank and federal housing officials. The indictment alleges that the agent transmitted a letter of credit for \$472,365 to a Syracuse, NY banking group, and sent federal housing officials a National Baptist Convention letter guaranteeing \$750,000 in conventional funding for the project in order to obtain FHA mortgage insurance for the \$5.4 million loan. Both letters were transmitted electronically and contained the forged signature of the National Baptist Convention's general secretary. The real estate agent is also accused of lying to federal Agents investigating Bethel Village financing. The investigation was conducted by the FBI, IRS, and OIG.

In **Kansas City, MO**, a Missouri State Representative, his son, his business associate, and a property manager were indicted on 5 counts of money laundering, 17 counts of mail fraud, 1 count of conspiracy, and 16 counts of aiding and abetting. The individuals allegedly misappropriated and converted to their own use more than \$250,000 from 7 assisted housing developments in 1997 and 1998. The indictment indicated that the conspirators used false and misleading documents to further their enterprise. The scheme involved creating "ghost" employees for the multifamily complexes so the individuals could launder funds through various bank accounts. The maximum sentences, if imposed, would be 135 years for the property manager and 30 years for the State Representative. The maximum fines for the two, if imposed, would be \$6.75 million and \$1.5 million, respectively. This investigation was a joint effort by the FBI and the OIG Offices of Investigation and Audit.

Michael D. Spoleta, president of Spoleta Construction and Development Corporation in **Rochester, NY**, and Spoleta Construction and Development Corporation both pled guilty to one count each of filing a false statement with HUD. As part of the plea agreement, Spoleta agreed to pay a fine of \$30,000, and the Corporation agreed to pay restitution in the amount of \$116,000 to the mortgagor and a penalty of \$425,000. Spoleta submitted to HUD a fraudulent contractor's certificate of actual costs in connection with the construction of the Edna Tina Wilson Living Center, a federally insured nursing home. Sentencing is scheduled for December 1999. This was a joint investigation by the FBI, OIG, U.S. Attorney's Office, and the Department of Labor.

## Public and Indian Housing Programs

There are approximately 3,300 public housing agencies (PHAs) which are established by local governments pursuant to state enabling legislation, and which receive financial assistance from HUD. HUD provides both project-based and tenant-based housing assistance to PHAs, in addition to homeownership and other grant assistance. HUD also provides assistance directly to PHAs' resident organizations to encourage increased resident management of public housing developments and to promote the formation and development of resident management entities and resident skills. Programs administered by PHAs are designed to enable low-income families, the elderly, and persons with disabilities to obtain and reside in housing that is safe, decent, sanitary, and in good repair.

The two major programs administered by PHAs include the Public Housing Program, encompassing about 1.32 million project-based assisted public housing units, and the Section 8 Housing Choice Voucher Program, encompassing about 1.43 million tenant-based assisted housing units. Public housing is considered PHA owned housing. On the other hand, PHAs serve as Contract Administrators for HUD in administering Section 8 housing. Under the Section 8 Housing Choice Voucher Program, eligible families are provided housing vouchers which enable them to lease housing in the private market as long as the housing meets the requirements of the program. PHAs also receive capital and operating assistance from HUD to develop, maintain, and operate their public housing units, and receive categorical grant assistance for the revitalization of their public housing (HOPE VI Program) and to enable them to address drug related and violent crime in and around their public housing developments (Public Housing Drug Elimination Program). HUD provides its housing and other assistance to PHAs pursuant to Annual Contributions Contracts and grant agreements, and with few exceptions, primarily under the authority of the United States Housing Act of 1937, as amended.

HUD assesses the performance of PHAs annually through the Public Housing Management Assessment Program (PHMAP). However, during Fiscal Year 2000, HUD intends to phase in a new PHA assessment system to replace PHMAP called the Public Housing Assessment System (PHAS). PHAS is designed to assess PHAs under four performance areas: (1) the physical condition of the PHA's units and developments; (2) the PHA's financial condition; (3) the PHA's management operations; and (4) the PHA's resident services and resident satisfaction. Under

this new system, HUD proposes to issue final overall PHAS scores for PHAS with fiscal years ending after December 31, 1999. PHAS classified as “troubled” under PHAS are required to be referred by HUD’s Real Estate Assessment Center to one of two Troubled Agency Recovery Centers (TARCs) for monitoring purposes. Troubled PHAS, generally, have 2 years to improve their performance to either that of standard- or high-performer or else they risk being referred by the TARC to the Departmental Enforcement Center, at which time they may be placed in judicial or administrative receivership.

HUD also provides housing assistance under annual block grants to eligible Indian tribes or their tribally designated housing entities and Alaska Native Villages pursuant to the Native American Housing Assistance and Self-Determination Act of 1996. HUD allocates its block grant assistance under a needs-based formula. Tribes are required to submit for HUD’s review and approval both a 1-year and a 5-year Indian housing plan containing the goals, missions, and methodologies applicable to their performance objectives for the grant period. The block grant assistance can be used for a variety of eligible affordable housing activities. HUD also provides Indian Tribes and Alaska Native Villages funding under a special Community Development Block Grant Program set aside for such entities.

During this reporting period, the OIG discovered instances of false statements, conspiracy, theft, bribery, extortion, and aiding and abetting involving Public and Indian Housing Programs.

In **Atlanta, GA**, contractor George Pearson pled guilty in federal district court to 15 counts of submitting false claims to the government. The claims were submitted in connection with construction projects at two prisons, two housing authorities, and one military base. Pearson, through his company, solicited and received subcontract work for installing flooring from various contractors engaged in construction projects on federal facilities between 1993 and 1995. As part of his scheme, he contacted suppliers for the required materials, and after the materials were delivered and stored at the construction site awaiting installation, Pearson, without the knowledge or concurrence of the contractors, added or induced his suppliers to add his projected labor costs to their invoices for the materials. He then submitted the inflated invoices to the contractors knowing that the invoices were false, and that the contractors would submit the invoices to the government for progress payments. After the contractors demanded full compliance with the subcontract agreements, Pearson made himself unavailable and did not install the floorings, as agreed. The inflated invoices Pearson submitted to the contractors totaled at least \$739,400; the suppliers’ legitimate charges amounted to approximately \$275,500.

This investigation was conducted jointly by the HUD and Department of Justice OIGs and the Defense Criminal Investigative Service.

Following a joint investigation by the IRS Criminal Investigation Division and OIG, Walter Turnbull, president of the Boys Choir of Harlem in **New York, NY**, pled guilty to submitting false income tax returns. Turnbull concealed his true income from the IRS from 1984 through 1994, falsified his tax returns, submitted false certifications in order to receive Section 8 rent subsidy from HUD, and obtained over \$25,000 in rent subsidy payments for which he was ineligible. He



also engaged in a double-dipping paycheck scheme at the Boys Choir of Harlem and submitted a fraudulent mortgage loan application to Citibank in 1991. Turnbull earns over \$101,000 per year as president of the Boys Choir of Harlem. Sentencing is scheduled for October 1999.

Five individuals in **Long Island, NY**, were arrested on charges of defrauding a public housing agency of more than \$175,000. The defendants, consisting of two families, fraudulently applied for rental assistance benefits and continued to provide false income information over several years. In one case, a husband, wife, and son were charged. The wife applied for rental assistance benefits at a residence jointly owned with her husband. They failed to disclose the wife's ownership, causing benefits to be paid to the husband as landlord on the wife's behalf. The wife and son were additionally charged with failing to disclose their employment income. In another case, a husband and wife were charged. The husband did not disclose his employment income, and the wife underreported her income, both at the time they initially applied for benefits and annually thereafter. The two husbands were friends and co-workers in the construction trade with the housing agency's chairman, who was previously indicted on separate charges. This was a joint investigation by the FBI, IRS, and OIG.

In **Newark, NJ**, one individual was arrested by members of the West African Task Force pursuant to a federal complaint issued in the District of New Jersey. This Task Force is a multi-agency initiative, which includes the FBI, OIG, INS, IRS Criminal Investigation Division, U.S. Attorney's Office, Postal Inspection Service, and a number of local law enforcement agencies, tasked by the Department of Treasury to investigate instances of widespread fraud. This arrest by the Task Force was related to a February 1999 sweep, which was the culmination of the first phase of a 2-year long investigation into a conspiracy to obtain HUD Section 8 rental subsidies. The target of the investigation, who was out of the country at the time of the earlier arrests, was arrested by the INS upon her re-entry into the country from Nigeria. This arrest was the result of an alert placed on the target by the OIG.

In **New Rochelle, NY**, following an OIG investigation, Steven Washington pled guilty to one count of theft of government funds. Washington, who has been convicted in the past of drug related charges and a violent felony, was sentenced to 8 months monitored home detention, 5 years probation, and restitution of \$11,078. Yvette Love, Washington's wife, an employee of the New York State Unified Court System, received deferred prosecution and 1 year probation with equal responsibility for restitution.

This investigation began as the result of a complaint received by OIG from the City of New Rochelle concerning the Section 8 Housing Assistance Program. The couple intentionally underreported to HUD over \$68,000 of Social Security income they received between 1993 and 1997. By failing to report this income, they received over \$20,000 in rental assistance benefits to which they were not entitled. The couple was originally arrested in August 1998 by OIG with assistance from the City of New Rochelle Police Department. The recently instituted Social Security/HUD Benefits History Report Computer Matching Program enabled OIG and the City of New Rochelle to discover that the couple had been receiving Social Security income.

Akindele Harrison Shadeko, a former **Hennepin County, MN** Probation Officer, was found guilty of four state felony counts of theft by swindle. Shadeko resided in public housing for over 8 years and never reported any of his income. He used a false social security number to hide his employment from the Minneapolis Housing Authority. The loss to the government is in excess of \$38,000. Sentencing is pending. This was an OIG investigation.

Following an investigation by the OIG and the **Lexington, MA** Police Department, a Section 8 resident was charged with conversion of government funds. The investigation disclosed that the resident allegedly worked full time between December 1989 and July 1998 under an alias, and failed to report this income on Section 8 housing certification documents. According to the Metropolitan Boston Housing Partnership, the Section 8 contract administrator, approximately \$37,000 in Section 8 housing assistance payments were made to which the resident was not entitled.

In **Alexandria, VA**, following an OIG investigation, Tasheanna Harris pled guilty to one count of submitting a false claim. Harris received \$33,891 in Section 8 subsidies to which she was not entitled by submitting false claims to the local housing authority. Sentencing is scheduled for December 1999.

Searcy F. Barnett, a Section 8 resident in **Tulsa, OK**, agreed to repay \$10,725 in benefits she received to which she was not entitled. An investigation by OIG and the U.S. Attorney's Office disclosed that Barnett fraudulently claimed ownership of a Section 8 property she was renting but did not own. After negotiations with the U.S. Attorney's Office, Barnett agreed to repay the money.

In **Austin, TX**, former Section 8 resident Anthony Nwoke was sentenced to 5 years in jail, suspended, 5 years probation, 2 months in a community correction center, and 200 hours of community service. He was also ordered to pay \$9,426 in restitution to be divided between HUD and the Department of Education; restitution is to be paid within the first 3 years of probation. The sentencing followed Nwoke's January 1999 guilty plea to one count of false statements. Nwoke, who has been a fugitive since 1984, was the subject of a joint investigation by the HUD and Department of Education OIGs. The investigation disclosed that Nwoke had received funds from both agencies to which he was not entitled by submitting false documents.

The ninth person to be charged with defrauding the HUD Section 8 Program pled guilty in Nassau County District Court in **Hempstead, NY**. A joint investigation by the OIG and the Nassau County District Attorney's Office found that Denise Pannell, a laboratory technician, failed to report her income to the Nassau County Office of Housing and Intergovernmental Affairs and the Social Security Administration, rented out her subsidized unit, and received over \$29,000 in Section 8 rent subsidies and Social Security benefits since 1997 to which she was not entitled. Pannell pled guilty to one count of offering a false instrument in the second degree. She will be sentenced in October 1999.

Individuals who previously pled guilty in this case include a Section 8 landlord, four Nassau County Hospital employees, a Town of Hempstead em-

ployee, an employee of the Nassau County Office of Housing and Intergovernmental Affairs, and an employee of the City of Long Beach Housing Authority. Eight of these individuals have been convicted with sentences totaling 60 months probation, 100 hours of community service, and \$45,843 in restitution to the Section 8 Program. Three of the civil servants were terminated from employment following their convictions.

William Miller, a former maintenance worker at the Holiday Acres Apartments in **Pittsburgh, PA**, was sentenced for his role in a Section 8 tenant fraud conspiracy. He received 33 months incarceration and 36 months supervised release, and was ordered to complete a drug addiction counseling program and to pay \$5,802 in restitution to HUD. Miller pled guilty to charges of conspiring with his sister, Sandra Balik, the former resident manager of Holiday Acres, who has also been convicted and sentenced in this matter. The two conspired to fraudulently use the identities of their sister and niece to facilitate Miller's use of a Section 8 apartment at Holiday Acres for more than 12 years. HUD paid more than \$48,000 in Section 8 benefits on behalf of Miller. Miller's sentencing culminates a 20-month FBI/OIG investigation into wrongdoing at Holiday Acres, which has resulted in the conviction of 3 individuals. In total, defendants in this case received 33 months incarceration, 10 months home detention, and 156 months probation, and were ordered to pay \$50,262 in restitution and \$300 in special assessments.

Sheleisha Jameson, a former Section 8 recipient in **Washington, DC**, was sentenced to 6 months home detention with an electronic monitoring device and 5 years probation, and was ordered to pay over \$22,000 in restitution to HUD, over \$8,000 in restitution to the Department of Agriculture, and a \$200 special assessment fee to be part of a fund set up for crime victims. The sentencing followed a negotiated plea by Jameson to two counts of theft of government funds. A joint investigation by the HUD and Department of Agriculture OIGs disclosed that Jameson stole over \$30,000 from HUD's Section 8 Voucher Program and over \$8,000 from Agriculture's Aid to Families with Dependent Children and Child Care Assistance Programs. Jameson carried out the fraud by submitting false claims to both HUD and Agriculture stating she was unemployed and thereby eligible for benefits under the programs. In fact, she was a full-time Agriculture employee.

Dennis Horak, a Section 8 landlord in **Long Beach, NY**, was debarred by HUD after his conviction and sentencing for extortion. A joint investigation by OIG and the Nassau County District Attorney's Office Special Investigations Bureau disclosed that Horak extorted \$3,400 in cash from an 81-year-old Section 8 recipient. A conversation between the victim and Horak that was recorded as part of the investigation revealed Horak making threatening remarks to the elderly Section 8 recipient, mocking her pleas for compassion, and warning her to make the extra payments or face eviction. In February 1999, Horak pled guilty and was sentenced to 1 year conditional discharge, fined \$300, and ordered to make full restitution of \$3,400 to the victim. He is no longer a Section 8 landlord and the victim has been relocated. Horak is one of nine persons to be arrested and charged by the Nassau County District Attorney's

Office with committing fraud against the Section 8 Program, as administered by the Nassau County Office of Housing and Intergovernmental Affairs.

In **Amarillo, TX**, Section 8 resident Rose Portillo pled guilty to two state counts of tampering with a government record relative to rental assistance and welfare fraud. Portillo was sentenced to 5 years probation and ordered to pay court costs plus restitution of \$26,760 to HUD and \$21,631 to the Texas Department of Human Services (TDHS). A joint investigation by OIG and TDHS disclosed that Portillo submitted false income information on documents to both HUD and TDHS in order to receive housing subsidies, food stamps, and Medicaid.

A Section 8 resident was arrested by **City of Jacksonville, FL** Police Officers and OIG Agents pursuant to a state arrest warrant for making a false statement to receive aid or benefits under a state or federally funded assistance program. The resident had been ordered to pay \$9,722 to the Jacksonville Housing Authority for benefits she received to which she was not entitled. No trial date has been scheduled.

Following a joint investigation by the **New York City** Police Department and OIG, an individual was arrested on two counts of aggravated harassment after the individual allegedly made two reported threats of bodily harm to a Section 8 resident in an attempt to force the resident to vacate. The investigation disclosed that the individual, who resided with his wife, the listed head of household of a Section 8 apartment, threatened the resident to whom they were unlawfully subletting the Section 8 unit when they became eligible for a larger apartment at the complex. The husband and wife have since been removed from the Section 8 Program, and the resident has relocated.

In **Nashville, TN**, Evelyn Haggen-Huggins, a former IRS employee who was previously indicted on three counts of submitting false statements to the government to obtain Section 8 rental assistance, pled guilty in federal district court. Haggen-Huggins failed to report income she earned while working for the IRS, and received over \$15,000 in assistance from HUD to which she was not entitled. This was a joint investigation by OIG and the IRS.

Following an investigation by the OIG and the Department of Justice, a Tribal Police Chief in **Sisseton, SD**, was indicted on charges of conspiracy to defraud the government, false statements, aiding and abetting, and theft and bribery concerning programs receiving federal funds. The investigation focused on the Chief's activities regarding the HUD Comprehensive Grant Program and Department of Justice Community Oriented Policing Services Universal grant funds. The investigation disclosed that the Chief was allegedly working overtime, against tribal policy, and double billing the hours to both grants. In addition, the Chief allegedly added his hours claimed to the timecard of a Police Reservist Officer; the Officer then cashed her checks and gave the Chief the excess funds. The Chief has been removed from his position.

Jessie Mae Chavis, a resident of the **East St. Louis, IL** Housing Authority and an employee of the Department of Veterans Affairs, pled guilty to a five-

count indictment. She was charged with making false statements to HUD that resulted in her receiving more than \$40,000 in housing assistance payments to which she was not entitled. Sentencing is pending. This was an OIG investigation.

Janet and Napoleon Russ were sentenced to 5 years probation and ordered to pay \$14,389 in restitution and \$100 each in special assessment fees. They previously pled guilty to making a false statement to HUD in order to receive rental assistance from the **Littleton, CO** Housing Authority. This was an OIG investigation.

In **Jacksonville, FL**, Ann M. Byrd pled guilty to state charges of public assistance fraud and was sentenced to 4 years probation, restitution of \$4,175 to the Jacksonville Housing Authority, and additional court costs. Byrd, a public housing resident, failed to disclose all of her income between 1996 and 1998 and received assistance to which she was not entitled. The investigation was conducted by City of Jacksonville Police Officers and the OIG.

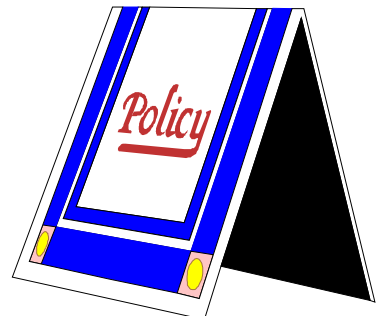
In **Merrillville, IN**, following an OIG investigation, Maxine Harris pled guilty to one count of submitting a false statement to obtain housing subsidies to which she was not entitled. Harris claimed she had no income effective on January 1, 1997, when in fact she was employed and earning more than \$50,000 per year. Sentencing is pending.

# Chapter 6

## Legislation, Regulations and Other Directives

Making recommendations on legislation, regulations and policy issues is a critical part of the OIG's responsibilities under the Inspector General Act. This responsibility has taken on added dimension at HUD because of the dynamics of its rapidly changing program and management environment. During this 6-month reporting period, the OIG reviewed 118 legislative, regulatory, funding notices, and other HUD directive proposals. This Chapter highlights some of the resultant OIG recommendations.

We remain concerned about the implementation of HUD's Directives System. HUD's Directives System Handbook sets forth policies and procedures for the resolution of nonconcurring comments by reviewing HUD offices. Generally, the Handbook requires that disagreements be worked out between Assistant Secretaries or their equivalents. Matters that cannot be resolved at that level are to be forwarded to the Deputy Secretary for final decision. While HUD's Directives System has worked well in the past, the current HUD Administration has failed to adhere to the principles underlying this system. In this regard, it has published rules and other policy issuances without adequate resolution of nonconcurring matters. The Administration's actions are particularly troubling in view of our statutory mandate to review regulations proposed by HUD and to recommend policies to promote economy and efficiency in the administration of HUD programs and activities. We will continue to report on HUD's progress in complying with its Directives System.



# Regulations

## ***Public Housing Assessment System (PHAS)***

This proposed rule amends the existing PHAS final rule to provide additional information and revise and establish certain procedures for HUD's assessment of public housing agencies' (PHAs') physical condition, financial condition, management operations, and resident services and satisfaction. The rule also implements certain recently enacted statutory amendments to this assessment system.

We nonconcur in the proposed rule and advised HUD that the rule had serious shortcomings. We recommended that HUD specifically state and define in the rule what constitutes a PHA that "is at risk of being designated as troubled." This language is referred to in section 5A(j)(1) of the United States Housing Act of 1937, as added by the Quality Housing and Work Responsibility Act of 1998. We also recommended that the rule require such "at-risk" PHAs to include certain information in their statutorily required Public Housing Agency Plans, as authorized by the United States Housing Act of 1937. In addition, we questioned the purpose for introducing new "substandard" performance designations in the rule in addition to "troubled" designations, given that the statute referred only to the use of "troubled" designations. In our opinion, the rule failed to sufficiently distinguish between the "troubled" and "substandard" designations, thereby creating confusion in determining their application and purpose.

We also questioned the rule's justification for not reducing a PHA's physical condition score under PHAS when HUD's physical inspections find missing or inoperable smoke detectors. We believe that PHAs should hold their residents accountable for missing or inoperable smoke detectors, and that PHAS should incorporate a component to assess the performance of PHAs in enforcing their tenant leases. Further, we recommended that the rule address the statutory provision which requires HUD to arrange for independent on-site assessments of troubled PHAs. The rule was completely silent on this matter.

HUD published the PHAS proposed rule in the Federal Register on June 22, 1999, without resolving our major concerns.

## ***Technical Amendment to Section 8 Management Assessment Program (SEMAP)***

This interim rule amends the SEMAP regulations to incorporate Office of Management and Budget technical revisions to bring them in line with the Single Audit Act Amendments of 1996. The draft interim rule was placed in clearance in May 1999. SEMAP is the Department's process for assessing and rating the performance of PHAs in administering the Section 8 Rental Voucher Program.

We nonconcur in the draft interim rule, which, when published, would take effect immediately. We believe the rule made many important changes to the existing SEMAP rule; therefore, we recommended that it be published for comment as a proposed rule. We found the rule's sampling process confusing, as it called for PHAs to review random samples of their tenant files for quality control purposes. However, the procedures discussed did not provide for a true random sample. The rule should provide that each PHA's tenant file sample be reviewed by the PHA's independent auditor to ensure a fair and impartial selection. Finally, the rule should provide for revising SEMAP performance ratings based on HUD's on-site confirmatory reviews.

The Office of Public and Indian Housing (PIH) agreed to change the rule based on some of our comments; therefore, we removed our nonconcurrency. However, PIH did not agree to publish the rule as a proposed rule. The rule had not yet been published in the Federal Register as of the close of our semiannual reporting period.

***Voluntary  
Conversions of  
Developments  
from Public  
Housing Stock***

This proposed rule implements a statutory revision authorizing a PHA to convert its public housing projects to tenant-based assistance in cases where the conversion meets certain statutory criteria. Section 22 of the United States Housing Act of 1937, as amended by section 533 of the Quality Housing and Work Responsibility Act of 1998, authorizes PHAs to convert their public housing developments to tenant-based assistance by removing the developments from their public housing inventory and providing for the relocation of the affected residents, or providing them with tenant-based assistance. The rule was drafted in a question-and-answer format.

We nonconcurred twice in this proposed rule. We questioned the propriety of the rule's requirement that PHAs submit their conversion assessments and conversion plans with their Public Housing Agency Plans, since the statutory PHA Plan provisions do not explicitly require this process. Also, there did not appear to be a sound basis for linking solely the physical condition of public housing developments to the triggering of conversion assessments under the statute.

The proposed rule was published in the Federal Register on July 23, 1999, without resolving our nonconcurrency.

***Capital Fund  
Formula***

As required by the Quality Housing and Work Responsibility Act amendments, this proposed rule implements a new formula system for allocating funds to PHAs to enable them to meet their capital improvement needs. The rule was developed through negotiated rulemaking procedures. The rule also addresses the statutory set-asides for emergencies and disasters from annual appropriations.

We nonconcurred in the proposed rule. Although we did not object to the rule's proposed capital fund formula, we expressed concern that the rule mentioned only set-asides for emergencies and other disasters, and housing needs resulting from litigation settlements, and did not provide for any set-aside for Operation Safe Home (see Chapter 2). Although the recent statutory amendments provide the Secretary discretionary authority to set aside up to \$20 million for Operation Safe Home, the draft proposed rule was silent on this matter. We recommended that the rule provide for an Operation Safe Home set-aside to eliminate uncertainties about annual funding for this critical initiative.

The Department published the Capital Fund Formula proposed rule in the Federal Register on September 14, 1999, without resolving our nonconcurrency. However, subsequent to HUD's publication of the proposed rule, the Conference Committee on H.R. 2684 (HUD's FY 2000 Appropriations Act) prohibited funds from being used for the Secretary's discretionary fund under Section 9(k) of the United States Housing Act.



***Admission and  
Occupancy  
Requirements in  
Public Housing  
and Section 8  
Programs***

This final rule implements changes to the admission and occupancy requirements for the Public Housing and Section 8 Rental Assistance Programs, as provided for by the Quality Housing and Work Responsibility Act of 1998. These changes concern choice of rent, community service and self-sufficiency in public housing, and admission preferences and determination of income and rent in the Public Housing and Section 8 Programs. The final rule follows a proposed rule published on April 30, 1999, and takes into consideration the public comments.

We nonconcurred in the final rule because of concerns over the savings account and community service/economic self-sufficiency provisions of the rule. We questioned whether it was appropriate to treat a resident's savings account as a security deposit. The rule would allow savings account balances to be adjusted for any rent payments due or unit damages when the resident moves from the unit. Also, the rule should state whether it is permissible for a PHA to charge its residents a custodial fee for maintaining their savings accounts. Finally, the rule should provide for PHAs to submit their community service and economic self-sufficiency policies with their Public Housing Agency Plans, pursuant to section 5A of the Quality Housing and Work Responsibility Act.

At the end of this semiannual period, the final rule had not yet been published in the Federal Register.

***Consortia of  
PHAs and Joint  
Ventures***

This proposed rule implements Section 515 of the Quality Housing and Work Responsibility Act of 1998, which specifically authorizes PHAs to administer all of their housing programs through a consortium of PHAs. It also authorizes PHAs to use subsidiaries, joint ventures, partnerships, or other business arrangements to administer their housing programs or to provide supportive or social services.

We nonconcurred in the proposed rule because it did not contain sufficient controls over identity-of-interest arrangements which could result in violations of the Annual Contributions Contract. The Department addressed our concerns by revising the rule to tighten controls and documentation requirements for identity-of-interest arrangements.

The proposed rule was published in the Federal Register on September 14, 1999.

***Rehabilitation  
Grants for  
Certain  
Multifamily  
Projects***

This interim rule provides for rehabilitation grants for certain multifamily projects. We nonconcurred in the interim rule because the use agreement for affordability and use restrictions did not specify enforcement provisions.

While the interim rule provided requirements for affordability and use restrictions for projects receiving grants under this provision, there are no requirements for specific enforcement provisions. The rule only mentions that the agreement can be enforced by HUD, tenants, tenant organizations, or the mortgagee. Enforcement actions are more likely to be taken if specifically provided for up front. This type of provision is especially important for rehabilitation grants because once grant funds are spent, there is no subsidy to abate as is the case with the Section 8 Program.

The agreements should provide for remedies to which the owner agrees, or damages for which the owner would be liable, if the use agreement is violated by the owner. One example would be to make the owner responsible for repaying

the rehabilitation grant if the owner is found to be noncompliant. This repayment would be considered to be recourse debt. Whatever the mechanism, HUD needs to put the owner at some financial risk for failing to meet the affordability and use requirements.

The Office of Housing satisfactorily addressed our concerns. The interim rule had not yet been published in the Federal Register at the end of this semianual reporting period.

## Notices of Funding Availability (NOFAs)

### ***Gun Buyback Initiative***

This NOFA provided funding information and program guidelines for gun buyback initiatives to be administered by PHAs through local law enforcement agencies under the Public Housing Drug Elimination Program (PHDEP). The NOFA encouraged PHAs to devote a nationwide total of up to \$10.5 million of their Fiscal Year 1999 PHDEP grant funds to such initiatives. The NOFA made an additional \$4.5 million available for these initiatives.

We nonconcurred in the NOFA. The primary issue that we raised concerned the legality of using \$4.5 million of HUD's \$10 million PHDEP technical assistance appropriation earmark (FY 1999) for gun buyback activities. In response to our nonconcurrence, HUD's Office of General Counsel subsequently provided us a written opinion in which it concluded that the plain language of the FY 1999 PHDEP technical assistance appropriation earmark rendered the earmarked funds available not only for technical assistance, but for purposes similar to that authorized under public housing drug elimination formula grants.

Our position is that the statutory technical assistance provision is subject to different interpretations and, therefore, is ambiguous. Accordingly, we applied other extrinsic interpretative aids to support our analysis, including a review of the legislative history and Congressional intent, and a review of HUD's Congressional Budget Justification in support of the PHDEP technical assistance earmark. Based on our analysis, we concluded that the Congress intended that the PHDEP technical assistance earmark be used only for providing technical assistance and training to grant recipients. We also concluded that HUD did not advise the Congress through its FY 1999 Budget Justification that it intended to use its FY 1999 earmark for gun buybacks. Consequently, we believe that the earmark is legally available only for the specific objects described in HUD's Budget Justification, namely, technical assistance, training, and program assessment.

On October 27, the Deputy Secretary advised in writing that Departmental management will rely on the HUD Office of General Counsel's legal analysis and, accordingly, will issue the NOFA and use the \$4.5 million of PHDEP technical assistance set-aside funds for gun buybacks. This NOFA was published in the Federal Register on November 3, 1999.

## Other HUD Directives

### ***Notice on Calculating and Retaining Section 236 Excess Income***

The Notice provided that when a mortgagor becomes ineligible to retain excess income for reasons enumerated in the Notice, HUD will notify the mortgagor that all future excess income will be remitted to HUD, with a prospective 30-day effective date. We suggested ineligibility to retain excess income should be effective the date the mortgagor was known to be out of compliance with HUD requirements, and not 30 days after being notified by HUD. The owner should not be given a grace period because HUD was delayed in learning of a violation.

The Notice required the mortgagor to provide HUD with an annual report on the amounts of excess income retained and the uses made of the excess income retained that year. The annual report should also require that the mortgagor certify it was in compliance for the entire period for which it retained excess income. The certification provides an additional mechanism for HUD to learn of violations and also facilitates enforcement at a later date, if the mortgagor falsely reported compliance and eligibility for retaining excess income.

We nonconcur in the proposed Notice because of these concerns over the mortgagor's approval to retain excess income and the need for mortgagors to certify to their compliance with requirements.

The Office of Housing agreed to address our concerns in revising the Notice.

The revision to Notice H 98-34 revised or provided additional guidance to the originally issued Notice H 98-34. We nonconcur in the proposed issuance because it would allow Section 8 contracts to be renewed even if the physical condition of the property was not in compliance with Section 8 requirements.

The proposed Notice would allow a contract renewal even if the property has not had an inspection completed or the owner has not had sufficient time (at least 90 days) to respond to an inspection. Allowing an owner at least 90 days to respond to serious violations of the Section 8 contract does not adequately protect the tenants living in substandard conditions. Further, renewing a contract when serious violations may exist but HUD is unaware of the conditions because no inspection has been performed also fails to adequately protect the tenants. At the very least, HUD should renew the contract for only a short term until an inspection can be performed by HUD or the contract administrator.

### ***Revision Notice for Section 8 Contracts Expiring in FY 1999***

The proposed Notice did not permit field staff to terminate or refuse to renew the contract based solely on receipt of an Exigent Health and Safety Deficiency Notice. However, if the conditions are not corrected, the Section 8 contract could be abated. The presence of urgent and immediate health and safety violations should be reason to require field offices not to renew contracts unless there are compelling reasons to renew, such as the owner has demonstrated that repairs are well underway. Finally, the Notice provided instructions for making renewal determinations using the physical inspection score along with several either/or criteria which were confusing and conflicted with one another. To simplify the decision for renewing contracts, field staff should not renew contracts if serious physical problems exist at the project that threaten the health

and safety of the tenants, unless the owner already has underway repairs to correct the problems. Contracts can be renewed for a short term if time is needed to process vouchers.

The Office of Housing satisfactorily addressed our concerns with the Notice which was issued on May 27, 1999.

***Reorganization-Office  
of Administration and  
Office of the Chief  
Information Officer***

Despite recent reorganizations of the Office of Administration and the Office of the Chief Information Officer (CIO), the Office of Information Technology (IT) has remained under the control of the Assistant Secretary for Administration. The OIG has consistently supported placing the Office of IT under the control of the CIO to ensure implementation of management reforms mandated by the Clinger-Cohen Act (also known as the Information Technology Management Reform Act of 1996). We nonconcurred on both proposed organizational changes, citing the Department's failure to take advantage of the opportunity to remedy the fragmented oversight of IT management.

The OIG and GAO have repeatedly cited weaknesses in IT management practices at HUD, and we believe that reform is unlikely unless the CIO has direct responsibility for information technology resources. At present, the CIO is limited to a policy, guidance, and planning role, while the Office of IT has responsibility for system development, operations, maintenance, and security.

The Deputy Secretary overrode our nonconcurrence on the reorganization of the Office of the CIO and went forward with the reorganization of the Office of Administration without addressing the nonconcurrence.

***Reorganization of  
the Office of the  
Deputy Assistant  
Secretary for  
Single Family  
Housing***

The proposed reorganization removes an existing layer of management and oversight for divisional activities, i.e., insurance, asset management, and program support. The proposal was to vest all oversight of the divisional activities directly with the Office of the Deputy Secretary for Single Family Housing.

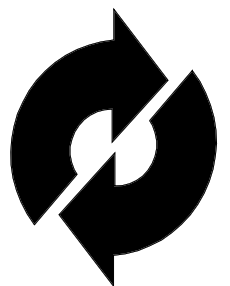
We initially nonconcurred with this proposal. We commented that it is critical that the FHA's multi-billion dollar operation have talented career staff to manage the single family insurance operation and maintain continuity in programs. As proposed, there will be fewer career staff positions. Each of the insured single family housing divisions is a critical part of the FHA and their roles are interrelated. The OIG believes that vesting oversight responsibility with a political appointee, which could change with each new Administration, would be disruptive to the FHA Program.

At a meeting with FHA officials, the Deputy Assistant Secretary pointed out several of the positive elements of the proposed organizational changes. These changes should increase accountability and add a limited number of additional resources. Although we lifted our nonconcurrence, we continue to be concerned about the limited number of career managers in the Single Family Program.

# Chapter 17

## Audit Resolution

Audit resolution is the process where OIG and HUD management agree to needed changes and timelines for action in resolving audit recommendations. Through this process, we hope to see measurable improvements in HUD programs and operations. The overall responsibility for assuring that the agreed upon changes are implemented rests with HUD managers. This Chapter describes some of the more significant issues where actions on audits have been delayed, where recommendations were reopened, where OIG disagreed with a management decision, or where management decisions were revised. It also contains a status report on HUD's implementation of the Federal Financial Management Improvement Act of 1996. In addition to this Chapter on audit resolution, see Appendix 2, Table A, "Audit Reports Issued Prior to Start of Period With No Management Decision at 9/30/99," and Table B, "Significant Audit Reports Described in Previous Semiannual Reports Where Final Action Had Not Been Completed as of 9/30/99."



## Delayed Actions

### ***Housing Authority of the City of Las Vegas***

*Issued January 20, 1989, October 15, 1992, & February 23, 1996.* The Las Vegas Housing Authority used federally assisted low-rent funds to support other non-assisted housing projects. We first reported this in 1989 when we disclosed that the Authority had misused over \$6 million. In 1992 and again in 1996, we reported that the improper practices were continuing and that the ineligible expenditures increased to over \$7 million.

In February 1997, HUD management and the Housing Authority negotiated a \$7.2 million repayment plan, including \$2.7 million to be repaid to HUD and the balance to the Authority's Low-Rent Program over 5 years. To date, the Authority has repaid the \$2.7 million to HUD and about \$1 million of the amount owed the Low-Rent Program. The Authority submitted requests for approval of a new repayment plan in December 1997 and November 1998, which extended the repayment from 5 to 16 years. Although HUD approved the revised plan in principle, the plan was never officially executed or approved by HUD. Moreover, although the plan would have required annual payments of about \$220,000 per year, the Authority has made no repayments since May 1998.

On January 8, 1999, the executive director wrote to HUD requesting that the remaining debt of \$3.5 million be forgiven by HUD because the repayments were adversely affecting the Authority's ability to provide affordable housing to senior citizens. On July 12, 1999, the Deputy Assistant Secretary, Office of Public and Indian Housing (PIH), requested that the OIG approve a write-off of the \$3.5 million debt. The OIG did not approve the write-off of the remaining amounts due because we believe that such write-off is not permissible under provisions of the Quality Housing and Work Responsibility Act of 1998. This Act includes provisions specific to the Las Vegas Housing Authority. Among other provisions, the Act states that the Secretary should assist the Authority in identifying alternative repayment options and executing an amended repayment plan that will not adversely affect senior citizen housing owned by the Authority. The Act does not, however, refer to forgiveness as an option.

Our recent review of the Authority's records disclosed the feasibility of an alternative repayment option that would allow the Authority to comply with its obligation to repay the amounts owed to its Low-Rent Program without adversely affecting the senior citizen housing that does not receive assistance from HUD. Based on 5-year old appraisals and the balance of mortgages payable, we determined that the Authority would have an equity of about \$8.3 million. In today's market, current appraisals could be even higher. We found for the 8 months ended May 31, 1999, the Authority generated an average net profit from its non-assisted program of \$30,000 per month. We believe this indicates that a write-off is unnecessary, since the Authority has the ability to refinance its current mortgages and obtain the funds needed to make the repayment that is due to its Low-Rent Program. (Reports Nos. 89-SF-209-1004, 93-SF-209-1001, and 96-SF-204-1003)

***Audits of  
HUD's FY  
1991 through  
FY 1998  
Financial  
Statements***

*First issued June 30, 1992.* HUD has been preparing financial statements under the requirements of the Chief Financial Officers Act for 8 fiscal years, beginning with Fiscal Year 1991. Various internal control weaknesses have been reported in these audits. In large part, the most recent audit (FY 1998) results reported in our previous Semiannual Report are consistent with results from prior years, except for the newly added FHA federal basis and budgetary accounting weakness. Under the HUD 2020 Management Reform Plan, HUD has been taking actions to address the weaknesses reported, and in some instances has made progress in correcting them. Although there has been some progress, material weaknesses continue with respect to the need to: (1) upgrade financial management systems, particularly those impacting Multifamily Housing Programs; (2) complete organizational changes to resolve resource issues; (3) ensure that housing subsidies are based on correct tenant income; and (4) more effectively monitor program recipients. Corrective action plans have continued to change over the last 8 years. The audit of HUD's FY 1999 financial statements will assess HUD's progress in correcting these material weaknesses.

***Audits of  
FHA's FY 1991  
through FY  
1998 Financial  
Statements***

*First issued March 27, 1992.* FHA has been preparing financial statements since the late 1980s and for 8 fiscal years under the Chief Financial Officers Act, beginning with FY 1991. The audit of FHA's FY 1998 financial statements discussed problems similar to those that have been reported since the audit of FHA's FY 1991 financial statements. The audit continues to recognize that FHA needs to: (1) improve its accounting and financial management systems; (2) place more emphasis on early warning and loss prevention for insured mortgages; (3) more quickly resolve Secretary held mortgage notes and minimize additional mortgage note assignments as well as note servicing responsibilities; and (4) monitor and account for its single family property inventory. Two weaknesses reported since the FY 1992 financial statement audit relate to the need for FHA to: (1) address staff and administrative resource issues; and (2) enhance the design and operation of information systems general and application level security controls. The FY 1998 FHA report issued on March 12, 1999, added a new issue, that FHA must improve federal basis and budgetary accounting to develop support for the preparation of future federal basis financial statements.

FHA's latest action plan continues to report efforts toward resolving these long-standing issues. The FY 1999 financial statement audit will assess FHA's accomplishments in correcting these conditions.

***Audits of Bond  
Refundings of  
Section 8 Projects***

*Issued October 30, 1992, and April 30, 1993.* In our Semiannual Report for the period ending March 31, 1997, we identified these as two reports for which we reopened several recommendations because corrective actions were not implemented. Over 7 years have gone by since we first reported to HUD officials that some State Housing Finance Agencies (HFAs) were violating federal regulations by collecting duplicate fees for administering Section 8 contracts. We reported that two of three HFAs we reviewed during our audit were collecting duplicate fees. The excessive fees for one of these HFAs amounted to over \$640,000 for the 8-year period covered by our audit. While the Office of Housing's current position is to prevent HFAs from collecting both fees on future deals, HFAs will be allowed to continue to collect duplicate fees on previous deals if they request a waiver and justify keeping both fees. Despite numerous at-

tempts to have this issue resolved, including the involvement of the Deputy Secretary, the Department has been unwilling to take corrective action. Not one dollar of duplicate fees has yet been repaid to HUD.

In a recently released General Accounting Office (GAO) report, HUD officials were criticized again for allowing some state and local housing agencies to be paid twice for processing and administering their Section 8 rental assistance contracts. The GAO called on HUD to strictly enforce rules against the dual payments for administrative and override fees that some state and local agencies receive, "unless there is a documented, sound and equitable basis for waiving the regulation." (Report Nos. 93-HQ-119-0004 and 93-HQ-119-0013)

***Community  
Development Block  
Grant (CDBG)  
Program, City of  
Huntington, WV***

*Issued July 10, 1992.* Our audit reported that the grantee: (1) awarded 19 ineligible and unsupported loans to borrowers amounting to \$4.5 million; and (2) did not support achievement of national program objectives; conduct on-site monitoring of borrowers; ensure funding provided to borrowers was necessary and appropriate; document the eligibility of borrower loan expenditures; or follow its own program guidelines when processing loan applications. We recommended the grantee repay nearly \$2.18 million from non-federal funds and review loans valued at nearly \$2.48 million for compliance with CDBG and grantee regulations and requirements. The issues were referred to the Headquarters Office of Community Planning and Development (CPD) by the field office. After numerous meetings between OIG and Headquarters CPD staff, all issues except for three loans have been resolved. Most recently, on August 10, 1999, we reached agreement with CPD on the actions necessary to resolve the recommendations involving the three loans. However, after 7 years, CPD is still awaiting additional information and records to be submitted by the City of Huntington before making a final determination on the outstanding recommendations. (Report No. 92-PH-241-1009)

***Memphis Housing  
Authority (MHA)***

*Issued January 13, 1997.* The MHA has been and is still unable to provide decent, safe, and sanitary housing to its residents. Buildings, grounds, and individual dwelling units are seriously deteriorated, and ineffective maintenance has been a long-standing problem. These conditions are identical to those found in a 1983 OIG audit of the MHA (Report No. 83-AT-201-1039). Prior efforts by HUD and management reforms at the MHA have not been effective in reversing the trend.

In August 1997, the MHA and HUD entered into a performance agreement that provided for contracting out the management of the MHA maintenance program, addressed improvements to the management of the modernization program, and set goals and objectives including benchmarks and timelines for improving the management and processes of the MHA. It also allowed HUD to declare the MHA in substantial default under its Public Housing and Section 8 Annual Contributions Contracts if it failed to accomplish targeted goals. OIG reviewed the performance agreement and agreed with the provisions, and HUD and the MHA executed the agreement on June 18, 1998.

On August 25, 1999, the Assistant Secretary for PIH requested our concurrence in revising the management decisions on this audit. Rather than contracting for private management of its maintenance department, the Assistant Secretary wishes to allow the newly appointed MHA executive director the opportunity to



improve his in-house maintenance operations. HUD intends to enter into a new Memorandum of Agreement with the MHA describing its expectations. We are working with HUD staff to refine the terms of this new agreement before we concur. Unfortunately, nearly 3 years after we issued our report, the MHA and HUD have done little to ensure that quality housing is being provided to the residents. (Report No. 97-AT-201-1001)

***Section 203(k)  
Rehabilitation  
Mortgage Insurance  
Program***

*Issued February 6, 1997.* Our nationwide review of the Section 203(k) Program disclosed numerous abuses by investors and nonprofit borrowers and a very high rate of default on their loans. Because of the serious potential drain on the insurance fund that could result from these types of loans, we recommended that HUD: (1) no longer allow investors to participate in the program; and (2) make improvements in program procedures for loans to nonprofit borrowers. Instead of removing investors from the program, HUD placed a temporary moratorium on investor participation. On June 9, 1997, this matter was referred to the Deputy Secretary. On February 2, 1998, the former Deputy Secretary decided to maintain the suspension on investor participation, but postponed the decision to permanently ban investors from the program until HUD decided whether to implement a new rehabilitation program. While we believed HUD should permanently ban investors from the 203(k) Program as it had done in other Single Family Programs, the suspension was an acceptable interim solution. Over the long term, however, we are convinced that investors should be banned from the Section 203(k) Program.

On August 14, 1997, the former Assistant Secretary for Housing-Federal Housing Commissioner proposed to implement revised program procedures to improve controls over loans to nonprofit borrowers. The improved controls were to be included in a mortgagee letter which was to be issued by December 31, 1997. We concurred in the draft mortgagee letter, but the Assistant Secretary never issued it. As a result, the program improvements we recommended have not been implemented.

On June 14, 1999, the General Accounting Office issued its report entitled "Problems Persist With HUD's 203(k) Home Rehabilitation Loan Program." The report stated that despite the recognized risk associated with the 203(k) Program and the potential for mounting losses to the General Insurance Fund, HUD has done little to address the problems identified by its Inspector General and others. HUD is not adequately overseeing key aspects of the program. (Report No. 97-AT-121-0001)

***Section 203(k)  
Program Consultants***

*Issued August 27, 1997.* We reviewed HUD's procedures for approving consultants and consultant trainers for the Section 203(k) Program. We determined that HUD's procedures were not properly documented and resulted in inconsistent decisions by HUD Headquarters and Field Office staff. The former Assistant Secretary for Housing-Federal Housing Commissioner proposed to develop a certification examination for 203(k) consultants which would be administered by a HUD approved testing organization. The improvements which were to have been completed by January 5, 1999, have not yet been made. (Report No. 97-AT-121-0803)

**Section 203(k)  
Rehabilitation  
Mortgage  
Insurance  
Program**

*Issued May 1, 1998.* We completed an audit of the Section 203(k) Program as it pertains to owner/occupant borrowers. We found incomplete and poor rehabilitation work even though inspectors had certified the work was properly completed. As a result, HUD's risk was increased and the borrowers' living conditions were poor. The Office of Housing drafted a mortgagee letter requiring lenders to field review the final inspection report for a sample of lenders' loans. We concurred in the proposed corrective action and the draft mortgagee letter on January 4, 1999. The mortgagee letter, which was to have been completed by June 30, 1999, has not yet been issued. (Report No. 98-AT-121-0002)

**Atlanta,  
Philadelphia,  
Chicago, and  
Detroit  
Empowerment  
Zones**

*Issued September 28, September 30, October 15, and October 20, 1998.* These four reports showed common weaknesses in program administration. The Cities lacked adequate oversight of Empowerment Zone funds and lacked controls to assure accurate reporting of program accomplishments. They used about \$1.9 million of Empowerment Zone funds to pay for inappropriate services and inaccurately reported Zone activities. This gave the appearance that Zone benefits and accomplishments were greater than they actually were. We made 51 recommendations to the Cities to improve program administration and asked that they reimburse their Empowerment Zone Program accounts for the inappropriate expenditures.

Thirty-three recommendations were resolved; however, 18 recommendations were elevated to the Deputy Assistant Secretary for Community Empowerment to resolve the outstanding issues and reach management decisions. On September 17, 1999, almost 1 year after we issued the first of the four reports, HUD's Coordinator of the EZ/EC Initiative signed letters to each of the four Empowerment Zones we audited, requesting information needed to make final decisions on the 18 recommendations. The Coordinator expects to make final decisions as to whether the Empowerment Zones need to repay any funds to their programs, as recommended by the OIG, by June 30, 2000. He estimates March 31, 2000, as the target date for the Cities to have adequate procedures and controls to assure the Zones use their funds efficiently and effectively and in accordance with program requirements, and accurately report Zone activities to HUD.

The delayed implementation of corrective action involves recommendations in our reports on the City of Atlanta (Report No. 98-CH-259-1005); the City of Philadelphia (Report No. 98-CH-259-1006); the City of Chicago (Report No. 99-CH-259-1002); and the City of Detroit (Report No. 99-CH-259-1003).

## Reopened Recommendations

HUD management is responsible for closing audit recommendations when they determine all corrective actions have been completed. Sometimes, we become aware of inappropriate closures when performing corrective action verification reviews, or during subsequent audit work relating to the previously reported problems. These reviews provide an element of quality control over the audit resolution process. Recommendations inappropriately closed are reopened and cannot be closed without our review and concurrence. This means that HUD management must address the problems originally reported. In the following

paragraphs, we discuss significant recommendations on which we found that HUD management reported closure before all agreed upon actions were implemented.

***Section 236  
Program, Excess  
Rental Income  
Collections***

*Issued December 21, 1994.* The OIG issued a multi-district audit on the Section 236 Rental Housing Program and reported that HUD needed to pursue changes in calculating excess income, HUD needed to take more aggressive action to collect about \$14.9 million in overdue excess income, and Section 236 projects owed HUD at least \$829,000 in unreported excess income. The audit recommendations were closed when guidance and instructions were issued to multifamily property owners.

Our March 26, 1999 review of the corrective action taken found that HUD management did not satisfactorily implement 11 of the 17 recommendations in our report. As a result, the amount of uncollected reported excess income has increased from almost \$15 million to over \$18 million through November 1998. The number of missing excess income reports also increased from 10,000 to nearly 14,000, so it is likely the amount of unreported and uncollected excess income has also increased. We have, therefore, requested the Assistant Secretary for Housing to submit a new plan of action with target dates for our review and concurrence which addresses these recommendations.

On June 30, 1999, we received a corrective action plan from the General Deputy Assistant Secretary for Housing. We concurred with the action plan, which calls for completed action by September 30, 2000. (Report Nos. 95-SF-111-0001 and 99-SF-111-0801)

## Significant Management Decision With Which OIG Disagrees

Section 5(a)(12) of the Inspector General Act, as amended, requires that the OIG report information concerning any significant management decision with which the OIG is in disagreement. During the current reporting period, there was one significant management decision with which we disagreed.

***Review of  
HUD's Efforts  
to Correct Year  
2000 Problems  
(Phase II)***

*Issued March 25, 1999.* HUD committed itself to performing Year 2000 (Y2K) certification for all applications. Since 1996, the Department has invested considerable effort in fixing the Y2K date problem. At the urging of the Chief Information Officer (CIO), the Department placed a moratorium on system enhancements to ensure maximum efforts would be devoted to the Y2K date problem. Additionally, the Department initiated an Integrated Certification Testing (ICeT) project to validate the successful operation of its core business functions in the Year 2000. Although the Department has made significant progress in correcting its Y2K problem, HUD has failed to implement several "industry recognized" best practices to minimize the risk and impact of system failures caused by the Y2K date problem.

We recommended the establishment of a Quality Assurance/Independent Verification and Validation (QA/IV&V) Group for HUD's ICeT efforts both in our

draft report issued on January 8, 1999, and the subsequent final report. While the Deputy Secretary agreed with the merits of establishing such a group, he disagreed with the recommendation, indicating that the establishment of the QA/IV&V Group was neither necessary nor the best use of resources, given the few remaining months until the Year 2000.

The Deputy Secretary also cited other factors that he believed would mitigate the risk of not having a QA/IV&V Group. In particular, he pointed out that HUD has engaged an IV&V contractor to independently review HUD's Year 2000 efforts. We agree that the Department has taken a number of positive steps. However, the role of the contractor for IV&V was limited to reviewing the ICeT processes rather than evaluating the results. A full functioning QA/IV&V Group, an industry accepted best practice, would have ensured that the system interfaces worked correctly and that the integrated software met specified requirements. An effective QA/IV&V function could have significantly reduced the risk of system failures caused by the Y2K date problem.

We agree that it is now too late to implement a QA/IV&V Group since the ICeT efforts are almost completed. However, we believe that had this function been established at the time of our draft report, when the ICeT efforts were in the early planning stage, it would have provided a key quality assurance role for the ICeT portion of HUD's Y2K efforts. Because we disagree with the Deputy Secretary's management decision, we are reporting this pursuant to Section 5(a)(12) of the Inspector General Act. (Report No. 99-DP-166-0002)

## Revised Management Decisions

Section 5(a)(11) of the Inspector General Act, as amended, requires that the OIG report information concerning the reasons for any significant revised management decision made during the reporting period. During the current reporting period, there was one significant revised management decision.

*Issued August 16, 1996.* Our report addressed, among other things, issues relating to a long-standing material weakness in HUD's monitoring of multifamily housing projects receiving HUD assistance. The report included recommendations relating to: (1) reviewing multifamily project financial statements; (2) procuring specialized asset management services; and (3) establishing goals for overseeing State Housing Finance Agencies and other entities that administer project-based Section 8 rental assistance contracts ("contract administrators") and analyzing project financial statements. The Department proposed revisions to the management decisions because of changing organizational structures and responsibilities resulting from the implementation of the HUD 2020 Management Reform Plan. The Real Estate Assessment Center (REAC) and the Departmental Enforcement Center (DEC), established under HUD 2020, assumed certain functions that had been the responsibility of the Office of Multifamily Housing. The status of these revised management decisions is as follows:

- *Reviewing multifamily project financial statements:* We had recommended that the Office of Multifamily Housing address issues relating to annual reviews of multifamily project financial statements. We concurred with HUD's

request to assign this responsibility to the REAC, since the REAC now receives and reviews those financial statements. The REAC plans to complete its review of calendar year 1998 project financial statements by December 31, 1999.

- *Procuring specialized asset management services:* We had recommended that the Office of Multifamily Housing procure the services of a contractor to perform specialized asset management services. These services are now the responsibility of the REAC and the DEC. While we concurred with the reassignment of responsibility to these new centers, the REAC and the DEC have not provided us with a description of the services under contract, or procurement actions in process, along with a timetable for awarding the contracts.
- *Establishing goals for overseeing “contract administrators” and analyzing project financial statements:* We had recommended that the Office of Multifamily Housing establish goals in its management plan to specify the frequency and timing of reviews of “contract administrators” and analysis of multifamily projects’ annual financial statements by field staff. HUD requested a revised management decision because the REAC is assuming responsibility for all project physical inspections, including those under “contract administrators,” and will assess the financial condition of all “contract administrator” monitored projects having HUD insured mortgages. HUD also referred to initiatives underway to transfer project-based Section 8 contracts to “contract administrators” and indicated that a detailed oversight strategy is being developed and is expected to be in place by mid-Fiscal Year 2000.

## Federal Financial Management Improvement Act of 1996 (FFMIA)

As part of the audit of HUD’s financial statements, FFMIA requires that we report whether HUD’s financial management systems are in substantial compliance with federal financial management systems requirements, applicable accounting standards, and the U.S. Government Standard General Ledger at the transaction level. Because HUD’s systems were determined not to be substantially compliant, HUD has prepared a remediation plan outlining the actions needed to bring them into substantial compliance. FFMIA requires that HUD implement a remediation plan that will accomplish this in 3 years or obtain the concurrence of the Office of Management and Budget (OMB) if more time is needed. HUD initially determined in April 1998 under FFMIA that 38 of its systems were not in substantial compliance. As a result, those systems must be in substantial compliance no later than April 2001.

HUD reported in its FYs 1997 and 1998 accountability reports that 38 and 28 financial systems, respectively, were not in substantial compliance with FFMIA. In our audit of HUD’s Fiscal Year 1998 financial statements, we criticized HUD’s remediation plan because it did not include the required resource informa-

tion. In addition, we took exception to five systems the Department had reclassified as conforming because corrective actions for these systems were not implemented during Fiscal Year 1998.

On September 13, 1999, the Department submitted an updated remediation plan to OMB. The remediation plan reports that the Department has not finalized plans for eight of its nonconforming systems and that previous remediation plans for nine systems have changed; therefore, new strategies and requirements are being developed. The Department projects that the remaining systems will be in compliance with FFMIA by the second quarter of Fiscal Year 2000.

We note that milestone dates in the original remediation plan for 17 systems under the Office of Housing, 1 system under the Chief Financial Officer, 2 systems under the Office of Administration, and 1 system under the Office of Public and Indian Housing were not met. In conjunction with our audit of HUD's FY 1999 financial statements, we are evaluating HUD's progress in implementing the remediation plan and expect to update our assessment of HUD's progress in our next Semiannual Report to the Congress. Based on the absence of remediation plans for some systems and the need to reestablish new requirements and milestones, HUD risks exceeding the 3-year statutory goal for bringing the financial management systems into compliance with FFMIA. (Report No. 99-FO-177-0003)